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Share schemes

There are a number of share incentive arrangements available for companies to offer their employees/ executives. These include:

- restricted share schemes (clog schemes);
- share option schemes;
- Save As You Earn (SAYE) schemes; and
- Approved Profit Sharing Schemes (APSSs).

These schemes vary in terms of complexity and costs. The following is a brief outline of the main benefits for each of the above schemes.

Unapproved restricted share schemes (clog schemes)

A share clog scheme provides a tax efficient means of rewarding employees by granting shares which are subject to a clog on disposal. This means that the shares will be subject to restrictions prohibiting their sale for a specific period.

As the clog restricts the employee's ability to dispose of the shares for a period of time, the employee is exposed to any fluctuations in the share price over the period.

The grant of the shares is subject to income tax. However, the restriction or clog on the disposal reduces the amount chargeable to income tax by a certain percentage depending on the length of the clog period as set out in the table below.

Period of restriction	%
One year	10
Two years	20
Three years	30
Four years	40
Five years	50
Over five years	60

This amount will also be the base cost for the shares on their subsequent disposal for capital gains tax purposes.

Unapproved share option schemes

Share options are agreements entitling the holder to buy shares in the future at a fixed price, usually the current value of the shares. The holder can make a profit if the shares increase in value and the option is exercised. Options are often used to retain and motivate selected key staff in a company by tying their remuneration to the share price.

Income tax on the exercise of the option is charged on the difference between the price paid (option price) and the market value at the date of exercise. This tax is known as Relevant Tax on Share Options (RTSO) and is payable to Revenue, along with Universal Social Charge (USC) and employee PRSI, within 30 days of exercise.

If the option is capable of being exercised more than seven years from the date of grant and is granted at less than market value, Revenue reserve the right to tax the employee on the grant of the option at the marginal rate.

Capital Gains Tax (CGT) is payable on disposal of the shares. CGT is charged on the difference between the disposal proceeds and the purchase price paid plus the amount chargeable to income tax and, where appropriate, the cost of the option itself.

Revenue approved Save As You Earn (SAYE) schemes

This scheme allows employees to save part of their after tax salary over a three year period at the end of which the employee can use those savings to purchase shares in their employer company. Membership of this scheme must be made available to all employees. The minimum savings amount is €12 per month and the maximum is €500 per month. The shares can be purchased at a discount of 25% of their market value at the beginning of the three year savings period.

No charge to income tax arises on the purchase at this discounted price. If you acquire shares under a SAYE scheme, consider putting them into your personal pension plan if the rules allow. The value of the shares will be grossed up at the basic rate of tax like a normal cash contribution to a pension plan.

Revenue Approved Profit Sharing Schemes (APSS)

Under an APSS the recipient employee is exempt from income tax on the shares received up to an annual limit of €12,700 in a tax year and is also granted favourable income tax treatment on any growth in the value of the shares. However, if the employee sells the shares within three years income tax is charged at 100% of the value of the shares at the date of sale.

This holding period will not apply where shares are transferred from an Employee Share Ownership Trust (ESOT) to an APSS subject to certain conditions.

The disposal of shares will be subject to capital gains tax. Participation is open to every full-time director/employee and part-time employee chargeable to tax under Schedule E and who satisfies the qualifying period (not more than three years). Shares may not be allocated to any individual holding a material interest (more than 15% of the ordinary shares) in the company where it is a close company.

The cost of providing shares in an APSS and the costs of running the scheme are tax deductible for the company subject to certain restrictions.

PAYE, PRSI and Universal Social Charge (USC)

All share awards subject to income tax, with the exception of share options (subject to RTSO) are generally subject to the PAYE withholding regime.

Employer and employee returns

The table below indicates the reporting obligations of employers and employees in respect of the various share schemes and rights mentioned above.

Type of share option or award	Employer reporting obligation	Filing/payment date	Employee reporting obligation	Filing/payment date
Unapproved share options/rights (including restricted share schemes)	Form RSS1 (electronic form only) and Form CT1	31 March after relevant year end 9 months after the employers' tax year	Form RTSO1 for unapproved share options (electronic form available but not mandatory) Annual tax return for restricted share schemes	Within 30 days of exercising of share option for unapproved share options 31 October in year following assessment
Approved savings related option scheme/SAYE	Form SRSO1	31 March after relevant year end	Annual tax return	31 October in year following assessment
Approved profit sharing scheme	Form ESS1	31 March after relevant year end	Annual tax return	31 October in year following assessment

As signalled in the Finance Act 2014, the employer RSS1 return has moved to an online reporting system. The electronic version of the form was introduced on 4 February 2015 and from that time onwards, all employers are obliged to complete this form where rights are assigned, granted, released or shares are allotted under unapproved share option schemes in the relevant tax year on the ROS system.

All other employer return forms remain the same, as paper returns.

How Grant Thornton can help

We have extensive experience in setting up and implementing share schemes. Our services cover the tax, legal reviewing and company secretarial issues involved. If you would like to discuss setting up a scheme or restructuring an existing scheme please don't hesitate to contact us.

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