

**Exemption for employee shareholder shares  
Draft legislation for inclusion in Finance Bill 2013**

**Comments by the Low Incomes Tax Reform Group**

**Who we are**

1. The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
2. LITRG works extensively with HM Revenue & Customs and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
3. The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

## Our comments

4. Our comments on this proposed exemption are brief. We note that the draft clause for inclusion in Finance Bill 2013 provides an exemption from capital gains tax for employee shareholder shares and we do not have any comment to make on the draft itself.
5. That said, we reiterate our comments in our response<sup>1</sup> to the earlier Department for Business, Innovation and Skills, as follows:
  - a. We remain concerned that a new 'employee owner status' introduces further complexity and unnecessary burdens into the tax system, particularly from the viewpoint of low-income workers, for whom there are huge risks of signing up to a scheme offered by potential employers without understanding the full ramifications.
  - b. The only 'benefit' we can see from the consultation of taking up 'employee owner status' is that a limited value of shares offered in the employing company will be free from capital gains tax. For the vast majority of employees, the trade off of certain rights for exemption from capital gains tax will not be worthwhile. It is a fact that most people never use their CGT annual exemption in any event; they will lose universally available employment rights for a tax relief from which they might never benefit.
6. If it is really necessary to offer employees the opportunity to trade in their employment rights for something, making the shares exempt from income tax and national insurance contributions would be a far more attractive benefit and incentive. We note that a limited exemption is under consideration, according to the Autumn Statement:

"Employment law

1.122 The Government is legislating to introduce a new employee shareholder status that will give staff a stake in their firms' future success and give firms greater choice about the contracts they can offer to individuals.... The Government is also considering options to reduce income tax and National Insurance contributions (NICs) liabilities that arise when employee shareholders receive their shares, including an option to deem that employee shareholders have paid £2,000 for shares they receive. This option would mean that the first £2,000 of shares received under the new status would be free from income tax and NICs."

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<sup>1</sup> See

[http://www.litr.org.uk/Resources/LITRG/Documents/2012/11/LITRG%20response BIS%20consultation employee%20owner%20status%20\(final%20submitted%20version\).pdf](http://www.litr.org.uk/Resources/LITRG/Documents/2012/11/LITRG%20response%20BIS%20consultation%20employee%20owner%20status%20(final%20submitted%20version).pdf)

7. We are unclear whether the above will be included in Finance Bill 2013 alongside the capital gains exemption, but again we underline our concerns that it is likely to be extremely difficult for employees to understand the full ramifications of opting for this special status – both in employment law and tax terms. If these provisions are to be introduced, clear guidance for employees will be essential.

LITRG

5 February 2013