EXPLANATORY MEMORANDUM TO

THE INCOME TAX (EARNINGS AND PENSIONS) ACT 2003 (AMENDMENT TO SAYE OPTION SCHEMES CONTRIBUTIONS LIMIT) ORDER 2014

2014 No. 402

1. This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC) and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This Order increases the amount that a person can contribute to savings arrangements linked to tax advantaged Save As You Earn (SAYE) employee share option schemes, from £250 to £500 with effect from 6th April 2014.

2.2 This Order will come into force on 19th March 2014.

3. Matters of special interest to the Select Committee on Statutory Instruments

None.

4. Legislative Context

4.1 The legislation on SAYE is contained in sections 516 - 520 and Schedule 3 to Income Tax (Earnings and Pensions) Act 2003. This Order amends paragraph 25(3)(a) of Schedule 3 to Income Tax (Earnings and Pensions) Act 2003.

4.2 This Order is made under paragraph 25(4) of Schedule 3 to Income Tax (Earnings and Pensions) Act 2003.

5. Territorial Extent and Application

This Order applies throughout the United Kingdom.

6. European Convention on Human Rights

Although subject to the negative resolution procedure, this instrument amends primary legislation.

The Exchequer Secretary to the Treasury, David Gauke, has made the following statement regarding Human Rights:

"In my view the provisions of the Income Tax (Earnings and Pensions) Act 2003 (Amendment to SAYE Option Schemes Contributions Limit) Order 2014 are compatible with the Convention rights."

7. Policy background

- ***What is being done and why***

7.1 The SAYE scheme provides tax and National Insurance contributions (NICs) advantages for employees who make regular contributions to SAYE contracts linked to SAYE option schemes. These schemes provide an opportunity for employees to acquire shares in the company or group for which they work.

7.2 Currently, employees may contribute up to £250 per month under SAYE savings arrangements linked to SAYE option schemes. At the end of the savings period (either three or five years) they may exercise their option and use their savings to acquire shares under the scheme. But they need not exercise the option, and may instead take their savings in cash form. In either case there is no income tax or NICs liability.

7.3 The Order increases the level of the maximum permitted monthly contributions under these arrangements to £500 with effect from 6th April 2014.

8. Consultation outcome

8.1 The change made by this instrument was announced on 10th December 2014 alongside draft legislation as part of the process of consultation on the draft Finance Bill. The comments that have been received on this change have all been in support of it.

9. Guidance

9.1 HMRC already publish guidance on the detailed working of SAYE. This guidance will be updated to take account of the change made by this Order.

10. Impact

10.1 This measure is designed to make SAYE option schemes more attractive to employees who participate in them. No additional one-off or on-going costs to businesses are expected from this change. The change applies only to those businesses that choose to offer tax-advantaged options to their employees under SAYE. It enables these businesses, if they choose to do so, to increase the amount their employees may contribute to SAYE schemes.

10.2 There is no impact on the public sector.

10.3 A Tax Information and Impact Note covering this instrument was published on 10th December 2013 alongside draft legislation to be included in Finance Bill 2014, and is available on the HMRC website at http://www.hmrc.gov.uk/thelibrary.tiins.htm. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 No special action has been taken to minimise the impact of the requirements on firms employing up to 20 people, because there will be no resulting additional impact for those businesses. The change applies only to those small businesses that choose to offer tax-advantaged SAYE options to their employees, and does not require any company to increase the limits on their SAYE scheme if they choose not to do so.

12. Monitoring & review

12.1 HMRC will monitor the number and value of options granted and exercised and the costs of the tax reliefs using the published National Statistics.

13. Contact

Andrew Ellis at HMRC Tel: 03000 585259 or email: andrew.ellis1@hmrc.gsi.gov.uk can answer any queries regarding the instrument.