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it's our business

newspad of the Employee Share Ownership Centre

Members fume over chaotic ERS online service

HMRC's online Employment Related Securities (ERS) service came under fire from Centre members after another IT glitch turned the year-end employee share plan returns process into a chaotic, messy and stressful exercise for hundreds of companies.

HMRC's Employee Shares & Securities unit admitted that it cannot read the data from 3500 recently submitted company employee share scheme returns and is asking all those companies concerned to re-submit their returns online, revealed Centre members **Pett, Franklin & Co.** and **Tapestry Compliance.**

The HMRC server went down shortly before the July 5 deadline for filing annual returns under the new system and was not restored until July 20, when companies were offered a revised deadline of August 4. However, many companies are still thought to have failed to comply and will have incurred a minimum fixed £100 penalty.

Worse still, as Tapestry Compliance executive **Anne Croft**, formerly a leading share scheme tax adviser at **Linklaters,** told clients: "HMRC has not been able to read the data attached to some 3,500 returns. It had set a deadline of July 6, by which time companies operating share schemes were required to **register** those share schemes AND submit their **annual returns online**. An online system was made available for companies to make their filings, but this system was taken down prior to the July 6 deadline after IT problems arose. Once the problem was fixed, HMRC extended the deadline to August 4. However, HMRC has not been able to read the data attached to some 3,500 returns. They are contacting the companies affected and asking them **to resubmit their returns**.

"HMRC will write to the companies individually to notify them. Company secretaries should look out for a letter if they submitted their returns prior to July 20. These companies are not at risk of penalties as the original submissions were properly made," she added.

Without access - in some cases - to the required information from the returns, HMRC may find it more difficult to spot whether companies are complying with all the rules which apply to tax-approved share schemes.

This latest IT setback at HMRC followed a torrid summer for the department, which is struggling to manage the transition of Employment Related Securities reporting to an exclusively online format. However, HMRC is not the first government department to have units which have almost ship-wrecked themselves trying to implement one shiny new IT system or another.

Details of the latest IT debacle emerged during a recent meeting between HMRC share scheme officials and leading Eso service providers. Eso lawyers **Pett Franklin & Co**. said: "A combination of technical glitches, and confusion over both the process and the form and content of the on-line templates which companies were required to complete, meant that the 2014-15 year-end reporting turned into a messy and, for many, a stressful exercise. It has since become apparent that the fault affected returns uploaded before July 20 and the companies concerned have now been asked to re-submit their returns - without a penalty threat.

"Whilst the seeming inability of HMRC servers to cope with the demand for access to the online PAYE portal clearly did not help, smaller companies struggled to understand and comply with the new requirements.

"The need formally to register existing Enterprise Management Incentive (EMI) share option plans - a step necessary to be able then to submit an online

From the Chairman

There was consensus among experts and multinationals at last month's MM&K/Centre breakfast that we need to raise our game. Both thinking and legislation are behind the curve in grasping the modern reality of shorter company sojourns and growing concern about long term provision. In addition charts from Michael Landon demonstrated that share plans are no longer adequately reaching the mass of employees. At the same time neat arguments about the alignment of top reward have been comprehensively disproved. Are our tax breaks now based on overblown and outdated rhetoric? It is clearly time for hard thinking and hard work.

Malcolm Hurlston CBE

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annual return - caught some unawares and/or bemused by the fact that initial registration of a plan or scheme could be done only by whoever has unfettered access to the company's PAYE portal. In many cases, the individual responsible for PAYE matters had no knowledge or experience of employee share plans, and those who did had no knowledge or access to the PAYE portal!" explained Pett Franklin.

The law firm alleged a lack of clarity about which companies needed to submit a report: those in which there had been no 'reportable event' did not need to do so and therefore did not need to register an existing non-qualifying plan by the deadline (unless they had EMI share options outstanding, in which case an annual report was required to be submitted, regardless of whether there had been a 'chargeable event' in that year).

"As regards the form and content of the templates, an obvious annoyance was the inconsistency in the use of terminology, and in references to columns in the templates themselves and in the guidance notes, columns being labelled both numerically and with letters. The legislation refers to 'rights to acquire securities', but the templates refer to 'options'. Some questions were superfluous and/or gave rise to unnecessary additional effort in completing the forms: *Why give details of the 'grantor' of an option (the shares may be sourced from a third party)? Why ask for the unrestricted market value of shares put under option grants?* Pett Franklin asked.

"Generally, HMRC's need to collect the information gathered in a manner which is then capable of being automatically processed, i.e. in which questions are only capable of fixed responses, rather than, as on the old Form 42, with the possibility of providing a narrative response, meant that companies have had to shoehorn in data from which it is unclear in some cases how HMRC can then determine, on a risk basis, which cases justify enquiry. HMRC has expressed concern at the number of instances in which a scheme had been registered, but no return had been made. "This may, in many cases, be as a result of the company having made duplicate registrations, or wrongly registered schemes."

Pett, Franklin & Co. appeared to side with harassed HMRC officials who, apparently, were not sufficiently consulted by the IT consultants engaged to design the templates and formulate the processes behind them: "It is to be hoped that, in designing next year's templates, greater weight is given to the views of HMRC officers and advisers with detailed knowledge of the tax rules and commercial realities, over those of the 'consultants' engaged to design the templates and formulate the processes behind them," the Eso lawyers said.

HMRC was forced to issue a clarification to companies which had registered their share scheme(s) but had not submitted an annual return for the tax year 2014-2015. It sounded the alarm, referring companies to its ERS online service and highlighted the urgent need for **submission of outstanding returns.** It told senior plan advisers: "*We are concerned by the number of cases in which a company has registered a share scheme for the tax year 2014/15 but has not submitted an annual return. This could be due to an oversight in filing an annual return, but we think there are likely to be many instances where the company made an error in registering a scheme – for example, by duplicating registrations. Where this is the case the system will still require an annual return to be submitted on the ERS online service. If you have not done so already, please could you encourage companies with share schemes to check that they have submitted an annual return for each scheme they have registered – including schemes they might have wrongly set up.*"

Tapestry Compliance summarised other issues now clarified by HMRC:

* Companies cannot amend registrations containing errors. The first registration must be terminated and a new one must be made in the correct form. The system cannot be changed to improve this process. Similarly, companies will have to deal with mistakes in filings by submitting an entirely new return.

* Automatic penalties for late returns will not apply if a return is submitted on time and later replaced by a return which is submitted after the deadline to correct an error.

* HMRC recognises that companies may not know their own access codes if their PAYE is outsourced. HMRC say that companies can apply to PAYE online for re-notification of their access codes. PAYE online should send these direct to the companies, not to the outsourcing company. HMRC pointed out that outsourcing companies operate as agents and have their own access codes which ought not to be used by the companies themselves.

* HMRC cannot yet say when new templates will become available but no major changes are expected as no new information will be required. The system cannot allow companies to see the information they provided last year. However, HMRC hopes that companies will be able to build on the information submitted this year so that next year's returns will not be so burdensome.

* '*Submit annual return*' - This wording appears on the site next to the name of each registered plan, regardless of whether a return has already been filed. "*This is confusing, however,*" said Tapestry Compliance. "*HMRC explained that it is necessary in order to provide a link for companies to submit a second return if they spot an error in the first.* Tapestry offered to help with the drafting of improvements to the guidance that accompanies the templates: "This should help resolve some of the detailed problems with the completion of returns that were experienced this year."

HMRC added: "Companies can easily check whether a return has been submitted: Log into the HMRC online service and access the ERS online service. In this section select ***View Schemes and Arrangements*** which will display a table of registered schemes. Select the scheme to be checked and on the following page it will show whether the return for 2014/15 has been submitted. To close a scheme registered in error for 2014/15, once again log into the HMRC online service and access the ERS online service and select View Schemes and Arrangements to display the table of registered schemes. Select the scheme to be closed and on the next screen select 'Enter date of final event'. We would recommend in these cases that you enter *6 April 2014*."

HMRC issued a further statement on the situation in its latest ERS bulletin:

Re-submission of 2014 to 2015 annual returns

"Due to a technical problem with our IT, data from some of our customers' returns has not been correctly captured. HMRC will be sending out letters to the companies affected asking them to re-file their share scheme returns for the tax year 2014-2015. If your return is affected you will receive a letter addressed to the company secretary. It identifies the scheme name and the unique scheme reference number of the scheme for which the return needs to be re-filed. You will receive a separate letter for each share scheme return that needs to be submitted. *Don't take any action until you receive a letter from HMRC asking you to re-file a return for your particular scheme.*

Please resubmit your return as soon as possible, and before **January 1 2016**. If you do not receive a letter from HMRC your return is not affected and you do not need to take any action."

Royal Mail posties set to get their extra free shares

UK postal workers look set collectively to receive ten million more free shares later this month. Around 145,000 eligible employees have been sent their Royal Mail Share Incentive Plan (SIP) 2015 Free Shares Invitation mailing, which contained an invitation letter and a personalised opt-out form.

When Royal Mail (RM) was privatised in October 2013, ten percent of the shares were set aside as free shares for employees who were eligible at the time. These shares were awarded as Share Incentive Plan (SIP) 2013 and SIP 2014 Free Shares. Since these shares were awarded, some employees who received them have left RM. Under the scheme rules, so-called '*bad'* leavers (who've simply got other jobs) have had to give up their shares – *unless they were forced to retire through ill health etc*. This has led to a build-up of surplus shares, which can now be distributed to eligible employees via their SIP trustee.

As well as these surplus shares, the Government has given an extra one percent of company shares, equal to *ten million* shares, to eligible employees. The surplus shares and extra shares together make up the SIP 2015 free shares offer.

News of the timing of the posties' further free SIP shares award bears the fingerprints of BIS Secretary of State**, Sajid Javid**, for whom the award is almost a personal crusade. The imminent distribution will increase speculation that the remaining 14 percent of the equity still in state hands will be sold into the market very soon.

RM said on its website: "We expect that all eligible full-time employees will be given around **90** SIP 2015 free shares. They will receive the same number of shares, regardless of their grade."

Eligible part-time employees will be given a proportionate, or pro-rata, number of free shares. This will be based on their paid hours between June 1 2015 and August 30 2015. If this number is less than ten, their SIP 2015 Free Shares award will be rounded up to ten free shares.

On top of the 729 free shares they hold already, this will give those who have remained throughout at RM 819 each in total = **£3768** worth of free shares at the recent closing price of £4.60 per share.

Most of Royal Mail Group's employees in the UK, including employees working in Parcelforce Worldwide, are eligible to be given SIP 2015 free shares if they meet basic criteria. However, employees of GLS and employees of other subsidiaries and joint ventures are not eligible. The following employees are eligible for SIP 2015 free shares.

*Full-time and part-time employees in the UK who have been continuously employed by Royal Mail Group from June 1 2015 and are still employed by Royal Mail when the SIP 2015 free shares are given to eligible employees. This includes RM employees who are on permanent, temporary or fixed-term contracts and those under 18 years of age. Those eligible, who want to receive their SIP 2015 free shares, will *automatically receive their free shares in October 2015*, unless they choose to opt out. Those not wanting to receive SIP 2015 free shares (a handful) had to opt out by filling in the personalised opt-out form and sending it to **Equiniti** by the end of last month.

LTIPs facing the scrapheap?

Leading City figures are to consider whether long-term share awards should be scrapped as part of a radical review of Britain's boardroom pay culture.

Sky News said that the move was among a number of options to be explored by a new panel called the Executive Remuneration Working Group, set up by the **Investment Association**, which represents the UK's £5.5trillion asset management industry. The committee will include some of the biggest names in the City, including **Nigel Wilson,** ceo of **Legal & General**, the FTSE-100's biggest single institutional investor; **Helena Morrissey**, the Investment Association's chair; **Daniel Godfrey**, the trade body's ceo; **David Tyler**, the chairman of **J Sainsbury**; Edi Truell, pensions adviser to Boris Johnson MP, Mayor of London and **Russell King**, who chairs the remuneration committees at **Aggreko** and **Spectris.**

Their work, which is due to take about six months, could result in an overhaul of the way Britain's top public company executives are paid, with investors increasingly concerned that the complexity of remuneration schemes is obscuring the proper scrutiny of their performance.

Mr Godfrey said: "Between companies, investors, government and the media, we've failed to make executive pay an obvious reward for exceptional personal contribution. The Working Group's objective is to make a real difference by bringing the simplicity that makes transparency meaningful to the issue. This could be the starting point for a new relationship between highly paid executives, their stakeholders and society."

As well as abolishing LTIPs altogether, another possible recommendation could be to introduce a uniform approach to long-term incentive plans which consists of fixed vesting periods and claw-back policies and which set out the maximum value of awards at the point at which they pay out to executives.

The new initiative comes three years after the *'Shareholder Spring'* of 2012, which resulted in the ousting of company ceos including **Aviva** and **Trinity Mirror** following investor revolts over their pay packages. The shareholder rebellions prompted Vince Cable, then Business Secretary, to introduce binding votes on companies' pay policies, although votes on the previous year's remuneration reports remain advisory. However, the reforms have not curbed the flow of shareholder anger over boardroom pay, with companies such as **BG Group, Man Group** and **RSA** all suffering substantial rebellions at their agms this year.

A recent report by **PwC,** the accountancy firm, said that the award of substantial annual bonuses to FTSE-100 bosses raised questions about "whether variable pay is living up to its name." **Tom Gosling**, head of executive pay at PwC said: "There's been growing dissatisfaction with long-term incentives, which are often seen as a lottery and too complicated. In response, companies are looking for performance measures that more closely link to company strategy. At the same time, companies are satisfying shareholder demands by increasing the length of time that shares must be held."(see inside pages)

Research by the left-leaning **High Pay Centre** has shown that the average pay of FTSE-100 chief executives soared from about £1m in 1998 to almost £5m last year, with much of the increase attributable to long-term share awards. Company directors have long argued that such pay increases are justified because they help to align bosses' interests with those of shareholders and because they operate in a globally competitive environment. Individual fund managers such as Fidelity have called for companies to introduce longer periods before share awards vest and have begun voting against boards whose remuneration policies do not comply.

Eso encourages employees to feel like owners, IoD told

"Employees who feel like owners and behave like owners will perform better for the business," Centre chairman **Malcolm Hurlston CBE,** told 65 SME business owners and senior executives at the latest joint **Centre - Institute of Directors (IoD)** share schemes for SMEs conference. At the IoD's elegant Pall Mall HQ, expert practitioner speakers from member firms explained the lengthening menu of employee share schemes, tax–advantaged or not, all-employee or executive only, which mostly privately-held SME businesses can adopt, in order to raise productivity, increase employee loyalty or launch the business succession process.

One of the highlights of this event was a presentation from **Steve Thomas** of the **HMRC Shares and Assets Valuation Unit**, who explained how non-listed shares were valued for employee share ownership scheme purposes.

Two key presentations tackled the use of the **The Employee Ownership Trust (EOT),** introduced in the 2014 Finance Act, in order to facilitate business succession and other Eso transactions in privately-held companies. **Nigel Mason** of the **RM2 Partnership** said that both ownership succession and management succession could be facilitated by employee ownership. A gradual transfer of ownership to management and employees was often the solution, achieving what business owners wanted. Many did not want to maximise share value for themselves but were concerned with leaving behind a healthy business and not leaving their employees high and dry, he said. Owners received a CGT exemption on the sale of a majority stake of the company to an EOT. The trust could then grant income tax free bonuses to employees of up to £3,600 per year. As the CGT relief was only available to the owner in the tax year of change of control the challenge lay in financing the purchase by an EOT. Nigel identified six banks which have financed EOT transactions so far: Barclays, Capital for Colleagues, Handelsbanken, Lloyds, RBS and Santander**.** With growing activity in this area, Nigel told delegates that already more than 50 EOTs had been established. Next, **Graham Muir** of **Nabarro** focused on the EOT legislation, rather than on the funding of such transactions. To qualify as an EOT, requirements had to be met. Almost all employees had to benefit and be treated according to the same rule or rules such as awards being based on length of service. The EOT must own more than half of the company. For bonuses granted by an EOT (of up £3,600) to qualify for income tax relief, all employees must receive something and be treated equally according to a rule based on length of service, level of remuneration, or hours worked. To qualify for the reliefs, bonuses must not replace regular pay. The legislation was highly prescriptive and significant care had to be taken to ensure compliance, but the tax reliefs for owners and employees through bonuses were significant, Graham said. One of the main commercial challenges was funding the EOT to purchase the controlling interest from the owner and he was pleased to hear from Nigel Mason that more banks were now seeing the opportunities, developing the necessary expertise and moving to fund these transactions.

Mark Gearing of **Fieldfisher** set the scene by surveying the menu of Eso scheme choices and looked at the common reasons companies introduce a share scheme including rewarding employees for past performance, encouraging future performance, succession planning and allowing employees to participate. The reason(s) for introducing a scheme shaped the type of scheme a company adopted, he explained. Businesses would need to consider what they wanted to achieve: was it just financial reward or cultural change too. Keep the scheme structure simple, as it would be easier to communicate the benefits; think well ahead of how to deal with an exit; and keep your scheme under review, he added.

David Craddock, of **David Craddock Consultancy Services,** looked at the *go-to* choice for companies that qualify for **Enterprise Management Incentives (EMI).** On learning of the tax and other benefits, some IoD members were disappointed to learn they didn't qualify, but others were excited to hear that they did. Using case studies, David demonstrated its commercial flexibility. Amongst the uses of EMI, David explained, are executive LTIPs where nil-cost options are granted; facilitating employee ownership in perpetuity with the use of a trust to recycle shares between employees – mirroring the US ESOP model and a growth shares model by which EMI was used so that employees can benefit from future company growth while existing owners retained control over the value already in the business.

David Pett, of **Pett Franklin & Co.**, looked at the choices for SMEs which don't qualify for EMI. The **ESS** or '*Shares for Rights'* scheme was ideal for those private equity backed companies which failed the independence requirement for EMI, he explained. CSOPs were a good option too, particularly as there was no qualifying activity requirement or limit on the size of the company. One newly available simple option from April 6 2016 may be to use the incoming £5000 tax-free dividend allowance to effectively offer employees tax free bonuses of up to £5000 via dividends. Another choice, *Growth Shares*, had its advantages – incentivising employees to contribute to hitting certain company targets before the shares gain value – but growth shares did entail complex provisions in the company's articles of association, he explained. Joint Share Ownership Plans (JSOPs) allowed employees to benefit from the growth of share value, while the company retained the value already accrued. David finished by explaining how, in using SIPs, the largest barrier for use by SMEs was probably administration and cost.

Mike Landon, of **MM&K,** explained the role of EBTs in share plans. In response to delegate questions, Mike discussed the location of the trust - highlighting the tax benefits and experienced trustees of regulated jurisdictions such as Jersey and Guernsey. While the **Office of Tax Simplification (OTS**) had recommended creating a level playing field between onshore and offshore trusts, by making the UK CGT reliefs easier to access, these changes had not been introduced. Mike commented that although EBTs had become central to the operation of many types of share plans, their costs and complexities could make some alternatives attractive to SMEs: e.g. issuing new shares, reissuing treasury shares, or granting nominal-cost options.

An interactive session for those new to share plans drew questions directed to panellists **Robert Head**, formerly of **Pearson**; **Mike Landon** of **MM&K**; **Jeremy Mindell** of **Primondell; David Pett** of **Pett Franklin** and **Malcolm Hurlston.** Questions on the finer points of EMI qualification left one business owner audibly disappointed to learn his company wasn't eligible. Delegates were keen to hear how all employees can be brought into schemes, including contractors. The subject of cost and to what extent DIY trusts were a good idea for the smaller company drew lively discussion between the speakers; business owners must balance initial and ongoing cost with the need for expertise and the risks of personal liability.

ESOP ideas had originated in the US through the work of Louis Kelso before Mr Hurlston had brought them to the UK and founded the Esop Centre to promote them, the chairman told delegates. "There's a wide menu of employee share schemes for you to choose from," he added.

Colin Kendon of **Bird & Bird** presenting on the *Shares for Rights* scheme told delegates that the media reaction to it had largely missed the point. Many of the common otherwise reasonable objections were misplaced, he said, as this scheme was not designed for large listed companies: "We are unlikely to see checkout staff at major supermarkets stripped of their rights," said Colin. "ESS has been used largely by private equity backed businesses who fail the independence requirement for EMI and which are attracted by the tax reliefs," he added. While the *Shares for Rights* scheme entailed employees surrendering certain employment rights, there was nothing to stop these rights being reinstated by contractual make good as soon as the shares were granted. Colin pointed out that this was confirmed on the BIS website, which stated that employers can "choose to offer contractual rights that are more generous than those provided for in statute," and doing so would not undermine any of the tax reliefs associated with the scheme. It was the CGT reliefs which were particularly generous under this scheme, with the first £50,000 worth of shares – measured with reference to their value on acquisition – exempt from CGT on sale whatever their value. The reliefs continued to apply after the cessation of employment.

Centre chairman Malcolm Hurlston welcomed Steve Thomas of **HMRC Shares and Assets Valuation (SAV)**. "In employee share schemes, the Revenue staff are your friends," Malcolm quipped, "facilitating the tax reliefs which do so much to spread the wages of capital." Steve told delegates that HMRC valued shares by establishing what a hypothetical purchaser would pay. Growth shares commonly presented valuation problems, he said, in particular where it was argued that because of the hurdles attached to the shares at the point they were granted there was little or no value in the option. The SAV unit had resisted this view – if they were valued so low he would be first in the queue to buy some, he joked. Steve stressed in particular the need to provide enough information for valuation to be agreed; each valuation had to be agreed on its own merits and valuations needed to be made on each taxable event.

Stephen Woodhouse of **Pett Franklin** discussed how employee shareholders could realise the value of their shares, a matter more complex for private firms than listed ones. The logistics for cashing out the value of their shares had to be considered in detail at the outset of any employee share scheme and flexibility had to be designed into the plan so changing circumstances could be adapted to, said Stephen. Without this full consideration there was a risk that share schemes ended up achieving the opposite of the intended objectives: frustrating participants, encouraging employees to leave, and resulting in owners surrendering value without return.
The main ways employees of private companies could realise the value of their shares were - sale of shares on a company exit, or if there are no such plans, by selling shares back to the company or to an internal market created through a trust. Tax had to be taken into account when considering the way share value would be realised for employees, but while important, tax should be secondary to commercial considerations Stephen emphasised.
Wrapping up, the speaker panel took more advanced questions. It focused on the importance of communication in getting the most out of employee share plans. To achieve the objectives discussed throughout the day, employees had to understand why the plan was being introduced. Sponsors had to ensure that their share plan communicated management priorities and helped employees feel their contributions were valued. Ensuring understanding started with making sure employees understood the terminology – e.g. share options and how they differed from shares was a good example. There were many approaches to communication, but in the smaller company it was feasible to hold seminars for all employees, where execs and share plan advisors could communicate directly. A number of SME companies represented at the conference said they intended to keep in touch regularly with the Centre.

Centre breakfast with the experts

The third in the Centre's series of free breakfast seminars was hosted by **MM&K** at the *City of London Club* on September 22 and well attended by multinational companies. Looking at how to use the tax-advantaged plans more effectively, **Mike Landon** detailed the recent changes in tax legislation (his slides are available on the Centre website and at http://tinyurl.com/ptmaxzy) before opening up a wider discussion on simplification and policy recommendations. He said that the introduction of self -certification for tax-advantaged plans had introduced uncertainty. As companies no longer received HMRC approval at the outset, they didn't have any assurance that their plan qualified as tax advantaged. Therefore, companies and their advisers had to take extra care in drafting plans to ensure they qualified or, in the worst case, they could find that they would lose the tax advantages, he added.

In discussing the need for greater flexibility in approved plan design **Stefan Bort** of **Prudential** pointed out that the statutory all-employee plans have not kept pace with changing patterns of UK employment. Employees often do not plan to stay for three or five years, and so participation rates in all-employee plans suffer.
This led to wider discussion with most people agreeing that pensions and share schemes needed to be better aligned and that equity reward had yet to reach effectively beyond the high paid.
Concluding the seminar Mike put forward some 'quick fix' policy recommendations:

- Allow full SIP tax relief after three years
- Extend CSOP reliefs to performance shares and nil-cost options
- Remove CSOP options three-year holding requirement
- Allow option adjustments on demerger/special dividend
- Review limits annually
- Make transfers to ISAs and pension funds easier
- Extend CGT exemption to onshore trusts

These breakfasts provide learning and networking opportunities for companies who have installed employee share plans. *If you are a member interested in hosting a breakfast or if there are any matters you would like to see covered in future breakfasts please contact Jacob Boult - esop@esopcentre.com; 020 7239 4971.*

Tax treatment inhibits use of Growth Shares

HMRC published a report commissioned from independent researchers into the uses of 'growth shares', including 'ratchets', 'flowering shares', JSOPs and debt-based gearing (HMRC Research Report 372 – September). The report's findings, gleaned from interviews with advisers, suggest that the appeal of growth shares for employees lies in the opportunity to see their income increase in relation to the effort, skill and time they put into the business, plus favourable tax treatment. The drawback is that tax and NICs are paid up front. The benefits for employers, identified in this research, are: they help company owners to recruit, retain and incentivise employees and encourage attitudes and behaviour that will bring about high levels of growth; until and unless such growth is achieved, equity in the business remains intact; and sometimes there can be a tax advantage for employers as they incur no NIC costs. The key drawback, given by respondents, was that there is usually *no* deduction for Corporation Tax purposes. The preferred alternative is EMI share options for those companies which qualify. However, those under the control of another company (such as many private-equity backed companies) do not. The Report provides a useful summary and comparison of the different types of growth share arrangement most commonly adopted by UK companies. It can be found at http://tinyurl.com/pqbjyvo.

CEO troughing in fashion again
The former ceo of **Volkswagen**, Martin Winterkorn, will net a £740,000 annual pension from a €28.5m pot held with the disgraced carmaker, and could be in line for a €30m payoff after quitting. Winterkorn, who was one of Europe's highest-paid executives, with a salary of €1.6m boosted to nearly €16m last year with bonuses and loyalty payments, finally fell on his sword as the extent of the emissions test-rigging scandal emerged. Winterkorn is entitled to 70 percent of his fixed salary, according to Volkswagen's annual report, from his staggering €28.5m pot. He may be entitled to two years' salary severance pay of €30m too if "membership of the board of management is terminated for cause through no fault of the board of management member." Apparently, there is no mechanism at VW whereby bonuses and severance pay deals can be clawed-back. Winterkorn stressed when he resigned that he was "not aware of any wrongdoing on my part." However, he was at the helm while the global corporation faces criminal investigation and huge consumer claims, as well as having almost 30 percent wiped off its market value as shares slid. He said: "I am stunned that misconduct on such a scale was possible in the Volkswagen group."
Standard Chartered boss Bill Winters landed himself a *golden hello* worth more than £6.3m, but the bank's share price has already fallen more than 37 percent since he took over the top job in June. Winters received 899,031 shares to compensate him for those he lost by leaving his previous job at Renshaw Bay, the hedge fund he founded after leaving JP Morgan in 2009. In addition, he got 59,035 shares as a 'fixed pay allowance.' In total the American was handed £6.7m in shares. This includes £413,000 from his fixed pay allowance. These controversial awards are routinely handed to the highest paid bank executives to dodge a bonus cap introduced by Brussels last year. From next year, Winters will receive an annual fixed allowance of around £800,000, topping up his annual salary of £1.15m, pension contribution of £460,000 and £35,000 in benefits As the share price haemorrhage indicates, investors aren't yet sold on Winters' kitchen-sinking. That has so far involved a boardroom clear out, halving the dividend and announcing cost-cutting measures that aim to save £1.2bn by 2017.

Royal Mail employee shares boost private shareholdings
The arrival of the huge new Royal Mail (RM) employee shareholding schemes from October 2013 has helped raise the level of individual UK shareholders for the first time in many years, said the **Labour Research Department (LRD).** Almost 150,000 postal employees received free shares which are being held in a Share Incentive Plan – the UK's largest share scheme - administered by Centre member **Equiniti.** In addition, 35,000 of the postal workers became participants in the RM SAYE-Sharesave scheme set up last year.

The **Office for National Statistics (ONS)** reported that by the end of 2014 overseas investors continued to hold significantly more shares (in terms of value) than any other sector, with ownership estimated at *53.8 percent of the value of the UK stock market.* This was much higher than the 30.7 percent held by foreign based investors in 1998, but relatively unchanged from the 2012 estimate of 53.6 percent, said LRD**.** Twelve percent of the value of shares traded on the UK stock market was owned by individuals at the end of last year. This was a slight increase on the record low of 10.1 percent in 2012 and the 10.2 percent in 2010, but well down on the 16.7 percent in 1998. The Royal Mail sell-off and the re-privatisation of **Lloyds Bank** probably helped lift the proportion owned by individuals – who collectively ranked second, followed by unit trusts in third place, with nine percent of shares owned at the end of 2014 — down from 9.5 percent in 2012, but up on 8.8 percent in 2010. The increase in ownership by UK individuals was a first since 1998, said the **Economic Research Council.** The main movements between 2012 and 2014 were the continued retreat of insurance companies and pension funds as UK investors, which has been going on since the early 1990s and an increase in the proportion of shares held by individuals

COMPANY SHARE SCHEMES
***ArcelorMittal SA** shareholders approved an employee share ownership scheme which permits 4.7 percent of the company's issued share capital to be given to 8,000 qualifying employees by means of a trust. Sourced from treasury shares held by a subsidiary, the shares are currently valued at around R240m (£11.5m), having been bought back previously for almost R2bn (£96m).
The company has not recorded significant achievements in South Africa's broad-based black economic empowerment plan (BEE), and its Eso will do much to enhance its standing with the government. The Ikageng broad-based employee share scheme will be the first BEE deal on ownership level since the company began trading as ArcelorMittal SA about nine years ago. It needs state help to fight off cheap Chinese steel imports, which are threatening the viability of its business and could result in the closure of its Vanderbijlpark plant. It has already been granted tariff protection in the form of a 10 percent ad valorem duty on two of its products, but wants protection for other products as well. The Eso scheme targets middle management and lower-level employees who do not qualify for the company's long-term incentive plan for senior management. A trust will hold the shares and issue trust units notionally. A minimum of 60 percent of the benefits of the scheme will accrue to black employees, who will benefit 15 percent more than non -blacks. Eligible black employees will qualify for 2,250 trust units as opposed to 1,950 for non-black staff. The scheme will last for five years, during which the trust units cannot be sold. Thereafter they may be converted into a direct holding, or beneficiaries may be paid the proceeds from the sale of the shares.

*The combined earnings of the US's 10 top-paid ceos in 2014 is still more than $600m shy of what Heidelberg-born Koos Bekker grossed when he cashed in the bulk of his shares in South African media company **Naspers**. The windfall, estimated to be as high as R20bn **(£956m)**, is almost ten times what the highest paid US ceo (the head of a Fortune500 company) earned last year. Thanks to its peculiar nature, Bekker's remuneration arrangement with Naspers is well known: for the 17 years that he occupied the position of company ceo he did not draw a salary or benefits and took *stock options as compensation.* Clearly the risk paid off extraordinarily well as the company's current share price is about R1,700 **(£81.24)** and has a price-to-earnings ratio of 97. In its latest annual report, Naspers showed Bekker had sold 70 percent (11.7m) of his shares in the past financial year. Under his leadership, Naspers made an investment of $32m in then little-known Chinese tech company **Tencent** in 2001. A year before the stake in Tencent was acquired, Naspers decided to swap its stake in mobile telephony (now known as MTN) for control of the pay-TV business. This came just before the entrance of new competitor Cell C into the market. Since then, MTN has grown to become the largest mobile operator on the African continent and over the past five years has seen its market valuation grow by 40 percent but Naspers's has leapt by 440 percent thanks to its investment in Tencent. His share sale in the past financial year is estimated to have realised as much as R20bn. As Bekker told *Moneyweb* this week, the profit was calculated as follows: "The market value of Naspers shares at the end of the five-year period, minus the market value of the shares at the beginning of the period, adjusted for inflation over the period. This resulted in a profit as the value growth exceeded the rate of inflation. On this profit, I paid tax at the marginal rate."

*About 1,700 senior managers at brewer **SABMiller** could be in line for payouts averaging £650,000 each if the takeover of the business behind brands like Grolsch and Peroni by **Anheuser-Busch InBev** goes ahead. Analysts at stockbroker Bernstein have calculated that employee share schemes put in place by the London-listed brewer will be worth more than £1.1bn in total if the acquisition-hungry AB InBev pays around £39 a share for its smaller rival. SABMiller's ceo, Alan Clark, who took the helm two years ago and has worked for the brewer for 25 years, could receive substantially more. His options could be worth at least £40m. Shares in SABMiller closed at £36 recently, holding on to the 20 percent gains scored when AB InBev was forced to admit it had approached its smaller rival about a tie-up. At current prices SAB is worth around £60bn. Trevor Stirling, analyst at Bernstein, calculated that if share schemes put in place at SABMiller were bought out by AB InBev at £39 a share, staff stood to receive a combined £1.16bn. While AB InBev might try to put new five-year packages in place to stop them walking away, Stirling wrote: "We suspect very strongly that these newly affluent South Africans would not stick around to see what the culture of MegaBrew would be, plus run the risk of being terminated during the five-year period and hence losing all the unvested stock." This might spark AB InBev – brewer of Stella Artois and Budweiser – to sell off some operations in parts of Africa to avoid the risk of staff defections. Other parts of the business would need to be broken off to calm concerns about monopoly positions in some countries. The staff retention dilemma, however, may be less of an issue for those employees whose shares have already been released to them but remain inside the scheme because they have decided not to sell the stock. A deal could take months to complete, if it takes place at all. AB InBev – an acquisitive business run by Brazilian Carlos Brito – has until mid-October to make a formal offer under UK takeover rules, and it is not clear if he and South African Clark have held any formal discussions.

* Mike Ashley, **Sports Direct's** founder owner, survived an attempt to oust him from the board. More than 88 percent of investors supported Mr Ashley's re-election at the retailer's agm, despite criticism from some City investors for his lack of attendance at board meetings. Sports Direct's chairman, Keith Hellawell, had faced criticism too from the **Trade Union Share Owners (TUSO)** group for his failure to tackle allegedly adverse employment practices at Sports Direct. The TUSO had written to Sports Direct's top 20 investors to urge them to vote against his re-election. At the meeting, Mr Hellawell witnessed almost 24 percent of shareholders' votes being cast against him. Almost 20 percent of investors' votes were against Sports Direct's remuneration policy. Shareholders had been asked to approve lower profit targets for its long-term share bonus scheme. Ceo Dave Forsey is in line for almost £8m worth of shares under the lucrative scheme. "Consistent with previous guidance we continue to target the revised underlying earnings target (before share scheme costs) of £420m for the current period," said Mr Forsey. Despite media attention, only ten shareholders attended the meeting at Sports Direct's offices in Shirebrook, Derbyshire. Six questions were asked, three of which were from union representatives, with whom Mr Ashley talked after the meeting ended. Trade union **Unite** had threatened to protest outside Sports Direct's office to highlight the 20,000 shop staff on zero-hours contracts. Separately, Sports Direct revealed that it had given £32m worth of shares to staff as part of the company's 2011 employee remuneration scheme.

Obituary

James Bullock, a tax litigation partner and a member of the senior leadership team at **Pinsent Masons**, died suddenly on September 14 at the age of only 47. James had more than 20 years of experience advising large corporates and high net worth individuals in complex disputes with HMRC, including leading negotiations and handling tax litigation at all levels from the Tax Tribunal to the

Supreme Court and European Court of Justice. Pinsent Masons, a Centre member law firm, issued a statement in his memory: *"It is with deep sadness that we confirm the sudden death of James Bullock, who ran our litigation and compliance practice, which grew domestically and internationally and received industry-wide recognition, under his leadership. James was an undisputed tax expert and a well-known figure in the tax world. He developed a reputation as a passionate and uncompromising litigator and was widely acknowledged as an expert on HMRC's powers. James was consistently recognised by the legal directories as elite and was the lead lawyer in key tax cases, including Westmoreland, Weald Leasing, Mayes and most recently the Glyn residence case. James was an active member of a number of tax bodies, including the VAT Practitioners Group and the CIOT. He was a member of the editorial board of Tax Journal. It is hard to overstate James' impact on both our business and the wider tax industry. James was an ebullient character and will be sorely missed. Our thoughts are with his loved ones at this difficult time."*

On the move

The Chancellor of the Exchequer, **George Osborne**, announced that he will deliver his **Autumn Statement** and the updated forecast from the **Office of Budget Responsibility** on **Wednesday November 25**, together with the government's spending review.

US Esop investment banker and Centre member **ButcherJoseph** has hired Rick Hennessey and Patrick O'Neil as analysts in its growing advisory team.

Centre member **Bedell Trust** has expanded its international presence through the acquisition of a majority stake in **Singapore Trust Company (STC)**, a well established fiduciary and corporate services business in Singapore. STC which was incorporated in 1996, was the first trust company in Singapore to be licensed under the Trust Companies Act in 2006. Following the acquisition, Rudy Tan will remain as md and be supported by the existing team of highly experienced professionals. Chairman Robert Meggy will retire. Michael Richardson, executive chairman of Bedell Trust, will (subject to Monetary Authority of Singapore consent) be appointed as the new Chairman of STC and Nick Cawley, ceo of Bedell Trust, will join the board too.

John Lewis (JL Partnership) chairman **Sir Charlie Mayfield** said a 26 percent fall in profits in the half year to August 1 was mainly down to "£60m full year higher pension charges arising from volatility in the market driven assumptions and last year's property profits." The Partnership is taking steps to plug a *£1bn hole* in its company pension fund after recent heavy falls in equity markets. John Lewis announced earlier this year that it is abandoning its final salary based staff pension scheme in favour of a hybrid scheme, partly based on employee contributions.

Stuart James has joined the executive advisory team of top UK based remuneration adviser **MM & K** from Grant Thornton, where he provided commercial advice to management teams, mainly in the equity-based rewards sector. Centre member MM & K, which is a specialist in Eso plans, is owned by its directors and employees.

Richard Grier has left **Pearson**'s share plans department.

UK company ownership register delayed

The new requirement on UK companies to keep a register of *'people with significant control' (PSC)* has been delayed by three months, said the **Society of Trust & Estate Practitioners (STEP).** The plan for a PSC register (originally a 'beneficial ownership register') was originally announced in 2013. Following a consultation, draft legislation was published in June last year. The *Small Business, Enterprise and Employment Act 2015* (the Enterprise Act) established that the registry will be open to the public and will include companies ostensibly controlled by trusts. However, points of detail still remained to be resolved, including the exact meaning of the phrase 'significant control', and safeguards needed to protect the safety of people named on the register. Expert groups were set up by the **Department for Business, Innovation and Skills (BIS)** earlier this year to discuss these and related matters. Now the new obligation on companies to create a register of their PSCs has been postponed from January 2016 to April 2016. The corresponding obligation to file this information at **Companies House** has been postponed from April 6 2016 until June 30 2016. This information will still have to be updated at least once every 12 months. Measures to strengthen the director disqualification regime have been delayed too - until June 2016. No explanation of the delays has been offered, and BIS admits that there may be further changes to the implementation schedule as the associated secondary legislation passes through parliament.

* Another of the Enterprise Act's key clauses – a general prohibition on corporate directors – has been postponed for a year until October 2016.

CONFERENCES

Centre – STEP Guernsey October 9

The Centre's annual Guernsey share schemes seminar, held in partnership with the Society of Trust & Estate Practitioners (STEP), Guernsey branch, will take place on **Friday** morning **October 9, 2015** at the St. Pierre Park Hotel, St. Peter Port. With 30 delegates already registered this is set to be a valuable networking and learning event. The event will review employee share schemes from a trustee perspective, providing an update for trustee delegates. Law Society accredited, this half day seminar will run from 9am till 1.15pm, prefaced by refreshments and followed by lunch.

Gavin St Pier, States of Guernsey minister for treasury & resources is guest of honour, and will deliver a keynote speech. Gavin is a former member of the Centre's steering committee. Speakers at the seminar are: **Malcolm Hurlston CBE**, chairman

Esop Centre; **David Craddock**, David Craddock Consultancy Services; **Stephen Woodhouse,** Pett Franklin**; Alison MacKrill,** Carey Olsen**, Jeremy Mindell,** Primondell and **Mahesh Varia**, Travers Smith. For further details, including presentation titles please visit the www.esopcentre.com event page.

Delegate prices: ESOP Centre/STEP members: £325 Non-Members: £450. To register to attend as a delegate please contact the Centre at esop@esopcentre.com, or call 0207 239 4971.

Sponsorship opportunities: Centre Awards Dinner & Reception October 28

There are only a handful of places still available for the Centre's 14th annual employee share ownership reception and awards dinner, which will be held for the first time at the **Reform Club**, Pall Mall, on **Wednesday October 28**. There are lead and supporting sponsorship opportunities available for this sell out event, please contact Jacob Boult for details: esop@esopcentre.com; 0207 239 4971. Judging has now taken place and the winners and runners-up for all the categories of the Centre's annual share scheme awards will be announced at this black-tie event.

The finalists for this year's awards are listed below:

Best international all-employee share plan in a company with more than 1,500 employees in at least three countries

Amadeus IT Holding S.A.
Royal Dutch Shell, nominated by Computershare
Imagination Technologies Group

Best all-employee share plan in a company with fewer than 1,500 employees

Abzena, nominated by MM&K
Henderson Global Investors

Best all-employee share plan communications

Royal Dutch Shell, nominated by Computershare
Amadeus IT Holding S.A.
Close Brothers, nominated by Equiniti
Henderson Global Investors

Best in financial education for employees

Auto Trader, nominated by Capita
Henderson Global Investors

Best integration of an all-employee share plan into a wider programme of employee engagement

Talk Talk, nominated by Equiniti

Best use of video in share plan communications

Home Retail Group
Amadeus IT Holding S.A.
Telefonica

Best employee equity intervention by a major company chairman or ceo

Sacha Romanovitch, Grant Thornton ceo
Cesar Alierta, Telefonica chairman

DAVOS: Speaker deadline October 5

Members who plan to deliver topic presentations at the Centre's 17th winter conference – **'Global Employee Equity Plans 2016: Dividing the cake more fairly'**- have until close of play **Monday October 5** to confirm their subject and format.

This annual Eso 'brains trust' two-day event, is scheduled to take place in the four-star **Hotel Seehof** in **Davos** on **Thursday January 28 and Friday January 29 2016.** Participants arrive only days after the closure of the World Economic Forum.

Members who want to register more than one representative can make a huge saving of almost **£400** from the cost of our two-night half-board accommodation + conference package deal, as a special reduction offered solely to Centre members.

Attendance gains delegates 11 hours of credits under the Law Society's CPD programme.

Confirmed speakers to date include**: Mike Landon,** a director of **MM & K**; **David Pett,** partner at **Pett, Franklin; Jeremy Mindell,** director at **Primondell; Kevin Lim** of **Solium UK; Euan Fergusson** of **White & Case; Malcolm Hurlston CBE,** Centre chairman and Centre international director, **Fred Hackworth.** Channel Islands based trustee Centre member **Bedell Group** has agreed to chair the conference trustee panel session.

There is space for more presentations on technical share plan and executive compensation issues and equity plan case histories where, in the latter case, the lectern is normally shared by service provider and client.

The Centre's deal with the **Hotel Seehof** has allowed us to **reduce early-bird attendance fees, most by at least £100** compared to those in force last February. Our *early-bird* charges for the two nights half-board accommodation + conference + cocktail party conference package in the Seehof are: **Speakers**: practitioners **£825;** plan issuers **£399; Delegates:** member practitioners **£945;** plan issuers **£495,** non-member practitioners **£1450.** *No VAT is charged as the event takes place outside the UK*

Centre member Davos privileges:

*Registered speaker or delegate **service providers,** who are Centre members, may invite a **second** person from their organisation to attend as a delegate (qualifying for the accommodation and conference package deal – *see above*) for the much reduced price of **£550 (**instead of the normal delegate price of £945).

*Speakers or delegate **practitioners/service providers** may invite an issuer client to attend for the **GBP 399** speaker package price, whether the client will be speaking or not.

Email Fred Hackworth now fhackworth@hurlstons.com, with copy to the Esop Centre at:esop@esopcentre.com to reserve your speaker or delegate place and/or to suggest topic themes for Davos. A social dinner for delegates in the Seehof is planned for **Wednesday January 27**, the night before the conference starts. The Parsenn, next-door to Hotel Seehof, is the largest ski zone in the Davos region, offering 35 high quality ski runs.

Posties to get no favours in part-privatisation of Italy's post office

Italy is on track to list 40 percent of the national post office in late October or early November, according to its ceo Francesco Caio, despite international market volatility and a growing outcry at home about the proposed partial privatisation.

This was confirmed to *newspad* by Marco Cilento, adviser to the **European Trade Union Confederation (ETUC).** However, in what looks like a major set-back to the Italian employee share ownership movement, Marco believes that Italian postal workers will be offered no free shares at all – unlike their UK counterparts. This is despite the Centre's effecting contact between the Italians and UK's trailblazing union CWU. He expects that Italian postal workers will be offered merely 'priority' status in the impending share sale, but no discount or other advantage, so they will have to buy the shares – if they want to – at market rates.

Turmoil in China's equity markets over the past weeks has led bankers to suggest the knock on effect on global markets may cause re-pricings or delays for companies coming to the market this autumn, said an article in the *Financial Times.*

However, Mr Caio said that the management of **Poste Italiane** would begin a two-week roadshow, taking in London and New York as the company seeks to drum up interest from foreign investors. The IPO is due to be one of Europe's biggest this autumn.

Italy's Treasury is seeking to raise about €4bn from the listing. Institutions will get 60 percent of the shares and the rest will go to retail investors. Poste Italiane is a 153-year old national behemoth, with €28.5bn in annual revenues, €420bn in postal savings deposits, 145,000 employees and a business that straddles logistics, savings and insurance. "The Treasury is still keen on a listing in October or early November," Mr Caio told the *FT* during the annual ***Ambrosetti*** meeting of business leaders and politicians in Cernobbio in northern Italy.

The share sale is the main plank of an already delayed €12bn privatisation programme which the reformist government of Matteo Renzi has billed as the biggest state sell-off since the 1990s, when shares in big national groups **Eni** and **Enel** were put on the market. Like other national postal privatisations, such as **Royal Mail** in the UK, the listing of Poste Italiane is becoming contentious. In an open letter in national newspaper *Corriere della Sera,* Corrado Passera, former ceo of Italy's biggest retail bank by assets **Intesa Sanpaolo**, who is seeking to launch a political career as a conservative, lambasted the plans. Mr Passera, who was a Poste Italiane executive early in his career, said the listing would "deprive Italy of the social and administrative infrastructure [and] a formidable means of financing national debt". He added that if widely trailed estimates valuing the entire post office at €10bn were to be believed "the deal will end up being a clear fire sale". Bank of America Merrill Lynch, Citigroup, Mediobanca, Banca IMI and UniCredit are joint global coordinators. The Treasury is being advised by Lazard and the company by Rothschild.

Executive allowances under fire

An average FTSE 100 boss last year took home just under £5m. Yet directors' packages normally include hefty sums on top of this – sometimes well into the six figures – to fund 'benefits'. A trawl through annual reports of the UK's best-known companies shows many bosses are showered with perks, wrote Ruth Sutherland in *Money Mail.* With a pay packet totalling £43m, super-rich advertising boss Martin Sorrell is a lightning rod for shareholder ire over perks. However, it emerged that the tycoon last year quietly handed back one of his controversial benefits – but still collects a six-figure sum in benefits on top of £43m pay. The **WPP** founder received sharp criticism after it emerged that the company paid £274,000 for his wife Cristiana to accompany him on business trips around the world. This sum was part of an extraordinary £453,000 benefits package Sorrell received on top of his huge salary and share bonuses. He began paying the travel expenses himself after details of the arrangement emerged in the company's annual report – and backdated his contribution to include last year. A WPP spokesman said: 'Martin Sorrell decided before last year's agm to fund his spouse's travel personally. 'It should be noted, however, that partners, male or female, often make a very significant contribution, whether costs are covered or not.' Even without the perk, the advertising guru is not exactly left short-changed. He enjoys a £50,000 accommodation allowance for staying in his own properties when doing business overseas – including in his flat in New York. The company justifies this by saying it saves money on hotel bills. On top of this there is £43,000 for undisclosed 'other expenses' – which are understood to include membership of clubs, security and an office at home. The lavish benefits rubbed salt into the wounds for some investors, who were dismayed by the decision to give Sorrell a 44 percent pay rise last year.

Shareholder body the **Investment Management Association** gave WPP an 'amber alert' – the equivalent of a yellow card in football – and suggested 'shareholders will want to review the level of benefits payments'. Shareholder advisory firm **Pirc** also labelled Sorrell's pay, which included £1.15m base salary, a £3.6m short-term bonus and £36m from WPP's long-term incentive plan, as 'excessive'. Protests about excessive pay tend to fall on deaf ears at WPP, which points out that Sorrell founded the company and business has been booming.

These are perfectly legal and have all been rubber-stamped by remuneration committees, who are supposed to keep a lid on corporate excess. A standard benefits package might include medical insurance, a car and possibly a chauffeur, life assurance and tax advice. Executives from overseas are as a matter of course given generous relocation expenses to cover their moving and housing costs here, along with other perks such as their children's school fees. Overseas bosses may also receive 'tax equalisation payments' like the £5.7m handed to former **Barclays** ceo Bob Diamond before he stepped down, to offset tax bills in their own country.

Non-executive directors can cost shareholders a packet too. Deanna Oppenheimer, the former Barclays retail chief who chairs **Tesco**'s remuneration committee, receives £96,000 for her part-time job, plus benefits of £56,000. "Yet she is supposed to be in charge of keeping any excess by the executives under control. Most of her benefits are to cover travel but investors may wonder why the cash-strapped grocer doesn't hire a UK director to do her job instead," said the *MoS*.

"The variety of perks ranges from the mundane to the ridiculous. Multi-millionaire corporate grandees are given staff discounts, including booze allowances for the chief executives of multinational drinks giants. Grocery bosses receive a few hundred pounds off the contents of their shopping trolleys, along with the checkout staff.

"In the world of fashion, the discounts are much more valuable. **Burberry'**s Christopher Bailey receives a cash allowance of more than £400,000 on top of an 80 percent discount on the store's wares, so he can purchase a trench coat or poncho for a fraction of the price paid by ordinary shoppers. Bailey will be able to pick up a Sandringham long heritage trench coat, which retails at £1,295, for just £259 and an embossed check leather briefcase costing £1,995 will set him back just £399. Burberry sparked fears it may be introducing US style *golden coffin* benefits to this country. Golden coffins are common in the US where bosses are offered perks and bonuses from beyond the grave in the form of death benefits for their heirs. The annual report this year included a clause giving details of the terms agreed should he pass away while still at the helm, saying this would include his salary to the 'termination date' and a bonus. Some shareholders are unhappy that it was not clear whether the termination date refers to the end of his 12-month notice period or the date of death. Burberry claims it is clear in his employment contract. The company claims he donates 10 percent of his salary to charity.

Pierre Denis, the head of **Jimmy Choo**, receives a 'product allowance'. The stiletto-maker says it doles out the benefits and allowances 'to promote the well-being of employees, allowing them to focus on the business,' and says it would not envisage paying more than £200,000 in perks per person, per year.

The serious side of this is that it is investors who foot the bill. Catherine Howarth, ceo of investor group **Share Action**, said: 'Small shareholders and pension savers with funds in the FTSE 100 will be staggered to learn about the extravagant executive perks enjoyed at their expense. These benefits are beyond the wildest dreams of the ordinary mortals who ultimately pay for them.'

Some bosses have decided to forgo their perks. They include those at **Centrica**, which stopped giving executives a £684 discount on their gas bills after the *Mail* exposed the practice in 2011. But the scale of executive benefits that remains still has the power to shock.

Are ceo bonuses really variable pay?

FTSE 100 bosses are being paid huge bonuses with little apparent regard to performance, said the annual review of top pay by the professional services firm **PwC** While a third received no pay rise this year, "almost all ceos receive a significant bonus each year, raising questions about whether variable pay is living up to its name".

In the past three years, the FTSE 100 index has risen by only six percent. Yet the ceos in charge of the UK's largest listed companies have received on average three-quarters of their maximum bonuses during that time — a proportion that has barely changed each year. For a typical ceo, basic salary makes up just under a third of total pay, with the rest coming from various types of bonus that are supposed to be performance related. However, PwC's "*Executive Pay: Review of the 2015 AGM season*" says: "A high proportion of [bonus] payouts only vary by relatively small margins from one performance cycle to the next. *In almost half of the companies, bonuses were either exactly the same as during the previous year (12 percent), or within ten percentage points of the previous year (36 percent)." It asked the question: "With the median ceo reward remaining at around 130 percent of salary for the past three years, and with almost half of awards showing little change from year to year, can annual bonuses genuinely be described as variable pay?"*

The average bonus of a FTSE 100 ceo rose by three percent to £1.12m this year, according to the report. These payouts, together with a three percent rise in base salaries to £891,000, helped total remuneration packages jump by 6.8 percent to an average of £4.28 m, according to analysis by PwC of pay packages reported at 2015 agms. In the wider economy, latest official figures showed annual pay growth running at around 2.4 percent.

The issue of annual bonuses that are almost guarantees opens up a new front in an increasingly fraught debate. Tom Gosling, executive pay partner at Centre member PwC, said: "As the average FTSE 100 ceo earns in a year what several ordinary people might earn in a working lifetime, remuneration committees need to make sure that payouts are fully justified by performance to help rebuild trust in business." He added: "Committees must continue to improve the quality of disclosure about how bonus targets are set and whether they are sufficiently stretching.

"The consistency in bonus payouts is raising questions about how well variable pay is living up to its name. "To build trust in the system, remuneration committees must continue to improve the quality of disclosure about how bonus targets are set and whether they are sufficiently stretching. This is likely to be where shareholders' focus will shift next."

The report said that the rise in the median total package to £4.28m was largely influenced by a strong stock market performance up to the early part of 2015, but falling stock markets later in the year are expected to result in a lower single figure of pay for the next reporting year.

The report said that the three percent rise in salaried pay was evidence that remuneration committees were showing "restraint". It added that 36 percent of top-flight bosses received no salary increase this year, up from a quarter in 2014. Mr Gosling said: "This continues the trend of largely static executive pay levels in real terms since the financial crisis."

The report added that most firms are introducing tighter controls on executive pay in response to shareholder concerns. It said that over half of FTSE 100 firms now stipulate there must be five years between the granting and release of long-term incentive payments. Claw-back has been introduced by almost all companies so that bonuses can be reclaimed in the event of wrongdoing, the survey added. However, the report added that these new brakes on pay can be seen as arbitrary and overly complicated.

Roger Barker, director of corporate governance at the **Institute of Directors**, said: "This report highlights some encouraging trends in terms of executive pay. Make no mistake, after years where excess was common and remuneration ran away from performance, there was plenty of work to do. But there are signs that companies are alive to the importance of addressing both their shareholders and stakeholders' concerns over executive pay."

TUC General Secretary Frances O'Grady said: "If earning more than 150 times the average salary is a sign of restraint than I would hate to see what excess is. Little has changed in the City. Bonuses are still out of control, with ceos' remuneration going up at more than twice the rate of average wages. These figures show once again why we need workers to sit on company boards and remuneration committees to keep boardroom pay in check."

Marks and Spencer's ceo, Marc Bolland, was confronted by one of his employees demanding that he pay staff the *living wage.* The executive, whose pay package this year totalled £2.1m, was presented with a T-shirt bearing the slogan "simply pay your M&S staff living wage" by 27-year-old shop worker Oliver Knowles. Bolland declined to wear it, but did take it with him. Knowles was told to go home after the incident, which took place in the Covent Garden store. "We need the living wage to live," Knowles told the *Guardian.* "People I work with work two jobs to survive – it is not right. I did it because Marc Bolland runs M&S, so he is the best person to speak to. I just wanted to get the message across that people cannot survive on what we are paid. I told him that these wages are poverty wages. He said he would look into it. But I have been told that by other managers. Nothing changes. Knowles said he was paid £8.26 an hour, 89p below the London living wage calculated by the Greater London Authority and supported by the capital's mayor, Boris Johnson. Based on a 40-hour week, the shortfall would amount to more than £1,800 a year. Knowles said the pay rate had led him to resign and look for a new job. He was serving out his notice period when he confronted Bolland, who was awarded a bonus of £596,000 this year after the retailer posted its first profit rise in four years. He has refused to accept an increase in his basic salary of £975,000 since he joined the company in 2010 and his earnings are well down on his total pay package for his first year in the job, which was worth £4.4m. His bonus this year was below that of Steve Rowe, who received an add-on worth £653,000 after his food department's revenues grew to £5.2bn. All bonuses were cancelled in 2014 amid falling profits.

Stephen Hester could walk away with an £8.5m payout from **RSA** after less than two years despite failing to improve the insurer's share price after an accounting scandal.

Zero hours contracts

The number of workers on **zero hours** contracts increased by 19 percent to 744,000 over the past year, or 2.4 percent of the UK workforce, new figures from the Office for National Statistics (ONS) showed. On average, someone on a zero-hours contract works 25 hours a week, it said.

OECD seeks to tighten the screw

G20 leaders and the Organisation for Economic Co-operation and Development (OECD) have made new recommendations for listed companies and regulators on issues such as shareholder rights, executive remuneration, financial disclosure, the behaviour of institutional investors, and on how stock markets should function.

The recommendations are contained in an update to corporate governance principles which the OECD said have been developed in a bid to "promote market confidence and business integrity", according to Centre member **Pinsent Masons**.

The new principles call for transparency in executive remuneration and the total value of compensation arrangements. "In particular, it is important for shareholders to know the remuneration policy as well as the total value of compensation arrangements," it said. "Shareholders will have an interest in how remuneration and company performance are linked. Shareholders should have a say in some aspects of remuneration, in particular any equity-based schemes that have the potential to dilute shareholder capital and 'powerfully determine' managerial incentives, and any material changes to existing schemes, it added. While a company "cannot be managed by shareholder referendum", investor confidence is an important factor in proper functioning of capital markets, the OECD added.

The GC100 and Investor Group, a working group which brings together leading institutional investors and some of the most senior general counsel and in-house lawyers working for FTSE100 companies, published a statement last December that updated its views on executive remuneration. The group emphasised the importance of listed companies ensuring, and explaining how, their executive pay and remuneration policies support the company's long-term strategy.

In October 2014, the Investment Management Association set out its stance on payment of 'allowances' in new guidelines on executive pay, saying that variable 'allowances' should generally not be included as part of directors' fixed pay because they are "inconsistent with the spirit of simplicity, clarity and pay for performance".

Other new principles cover the quality of supervision and enforcement, and the role of stock markets in supporting good corporate governance. Cross border listings are covered, along with the use of information technology in shareholder meetings, and stakeholders' rights to information. Board training and evaluation are covered in new principles, and the OECD recommends establishing specialised board committees in areas such as remuneration, audit and risk management. The principles were first developed by the OECD in 1999 and have become an international reference point. The review of these principles was launched in 2013, with all G20 countries invited to participate along with international institutions including the Basel Committee, the Financial Stability Board's (FSB) and the World Bank.

"In today's global and highly interconnected world of business and finance, creating trust is something that we need to do together," OECD secretary-general Angel Gurría said. "The new principles represent a shared understanding of what constitutes good corporate governance. Now the priority is to put the principles to good use and ensure better functioning financial markets."

Golden parachute slashed

Alcatel-Lucent bowed to weeks of political pressure and agreed to cut in half the bonuses to be paid to former ceo Michel Combes, underscoring the pressure on French companies to rein in executive pay. Alcatel -Lucent decided to grant Mr. Combes a maximum of €7.9m in total cash bonuses - including a long-term compensation bonus and payment for a non-compete clause - following the sale, which he oversaw, of the company to **Nokia Corp**. The intention had been to give him a stock-and-cash package worth roughly €14m, at current prices, over several years. The payments to Mr. Combes, who left the company on September 1 to take a top job at **Altice** - working for telecom tycoon Patrick Drahi - could be lower depending on the Alcatel-Lucent's performance in 2015.

The decision to reduce Mr. Combes's compensation followed a public outcry when details were first disclosed in the French media in late August. Politicians and union figures condemned a *golden parachute* for an executive who had sold off a French industrial icon after being in the company for scarcely more than two years. Two of France's most senior ministers — Emmanuel Macron and Michel Sapin — felt moved to speak up against Mr Combes' golden parachute. The French financial regulator may actually clamp down on such practices. It is now looking into Mr Combes' severance package to check whether it adheres to governance rules, having already raised concerns over executive pay at Alcatel-Lucent.

Alcatel at first defended the payments, saying Mr. Combes had helped save the company from bankruptcy and found a buyer that would keep a significant presence in France. However, after criticism from business groups, saying that the compensation didn't follow their recommended norms, the company said it had reviewed the compensation "with the full support and at the request of Mr. Combes."

A report by the UK's left-leaning High Pay Centre said that the leaders of the UK's biggest companies are paid 183 times that of the average employee— up from 160 times just five years ago. But a report published by Vlerick Business School in Belgium this year showed that Germany had overtaken the UK as the home of Europe's top-paid corporate executives. Across the Vlerick study's sample of Germany, the Netherlands, France, Belgium and the UK, the biggest determinant of pay was the size of company, with executives at larger companies enjoying higher pay, bigger bonuses and more generous pensions.

Yet corporate pay in the US dwarfs that of Europe. So do the golden parachutes companies hand out to executives facing the prospect of losing their jobs following a merger or an acquisition by another company. Data compiled by Equilar, the executive pay research firm, showed that golden parachute payments for ceos of the 10 of the biggest companies taken over last year could total $430m.

Mr Combes has defended himself, telling *Les Echos* that the sum was down to a decision to reduce the fixed portion of his salary to €1.2m a year while maximising the 'variable' portion, which was linked to the group's performance. Insisting that he took on the top job in 2013 when the company was in quasi-collapse, he said: "I took on the risk of the industrial project." Since then, Alcatel-Lucent's share price has increased from about €1 per share to €2.91. In July, it reported its first second-quarter positive free cash flow since Alcatel merged with US Lucent Technologies in 2006. Mr Combes was widely praised this year after he negotiated the company's €16bn sale to Finland's Nokia.

Executive pensions

Ceos of publicly traded US companies saw their pay inflate last year due to stock market gains and changes to pension awards, according to data published by *Market Watch*. The median total compensation of ceos of US public companies in the Russell 3000 index increased by almost 12 percent in 2014, compared to the previous year, said new research by **The Conference Board**, a global, independent business research association and by **Arthur J. Gallagher**, a risk management and

consulting firm. Yet median household income, adjusted for inflation, rose 3.3 percent in 2014, indicating that line employees were getting pay rises mostly around that level, according to separate data from Sentier Research.
“The performance of certain segments of the equity market—which, since the financial crisis and until a few months ago, has consistently delivered double-digit rates of return—was the main driver of the upward trend in ceo pay in the Russell 3000,” said Matteo Tonello, md of corporate leadership research at The Conference Board and a co-author of the report. Only two women, Marissa Mayer of **Yahoo** and **United Therapeutics**’s founder Martine Rothblatt, made the top list of earners.
Eight ceos made the study’s top 25 list despite negative one-year total shareholder return generated by their companies and one made despite negative three-year returns. That flies in the face of claims by defenders of generous ceo pay that the large pay packages are merely rewards for stellar performance.
Lower discount rates and longer life expectancies also are driving revised calculations of company ceo pension contributions among larger firms with market capitalization of $5bn or greater. The impact is so big most companies had to explain it in proxy statements. S&P 500 firms funded an average $1.3m being added to their ceo retirement benefits, compared to $467,000 in 2013, the report added.
Only a small part of US ceo earnings come from base salary; performance-based components dominate and help ceo reward packages to grow larger more quickly, especially when share prices rise. The US approved legislation in the 1990s that limits tax deductions to fixed salaries to less than $1m unless they are performance-based. Despite that incentive to cap fixed pay, companies may start shifting the mix now that the **Securities and Exchange Commission** recently approved a Dodd-Frank rule requiring companies to start disclosing the ratio of ceo pay to median employee pay beginning in 2017.
European-based executives now get more in fixed-cash salaries and less in bonuses after the **EU** limited performance-based rewards in January 2014 to twice an executive’s fixed pay. That move came in response to regulators’ worries that prior to the 2008-2010 crisis executives had huge monetary incentives to take on excessive risk. Even though the tax code discourages high fixed pay in the US, some companies pay salaries in excess of the $1m cap anyway. Almost 500 companies in the Russell 3000 Index awarded at least one executive a salary higher than $1m in their most recent fiscal years, according to data compiled by **Bloomberg.**
***Qantas Airways** ceo Alan Joyce received an A$12m reward package for the year ending last June, almost six times more than he received in the previous year. Clifford justified his huge reward increase by pointing to the airline’s spectacular profits turnaround from a loss of A$2.8bn to a net profit of A$557m in its last fiscal year. Qantas has axed thousands of jobs as part of its economy drive, but current employees are finally enjoying pay bonuses after an 18 month wage freeze. Executives have received no pay rises in the past three years.

Accounting changes recommended for share plans
The Interpretations Committee (IC) of **the International Accounting Standards Board (IASB)** recommended that changes be made to **International Financial Reporting Standards (IFRS) 2** which will affect the way in which some employee share plans are accounted for. Companies listed on the main market of the London Stock Exchange and AIM are required to prepare consolidated accounts in accordance with IFRS. The changes will be discussed by the IASB at a future meeting and will affect the accounting treatment of (i) cash-settled share-based payments subject to vesting conditions; (ii) net-settled share-based payments (where, when the award is settled, the company issues or transfers a reduced number of shares to the employee and makes a cash payment to HMRC to cover the PAYE liability); and (iii) cash-settled share-based payments which are subsequently re-characterised as equity-settled. There is no timetable yet in place for the changes to IFRS 2 to be finalised, said lawyers *Addleshaw Goddard*.

Dutch dividend withholding tax illegal
The **Court of Justice of the European Union (CJEU)** has given judgment in three joined cases involving the Dutch dividend withholding tax provisions, writes Centre member **Deloitte.** When a Dutch resident company distributes dividends to its individual and corporate portfolio shareholders, Dutch dividend withholding tax is due at a rate of 15 percent. When dividends are paid to non-resident shareholders, the tax is treated as final. However, when dividends are paid to Dutch resident shareholders, the 15 percent dividend withholding tax is neutralised because the shareholders can credit the tax against their individual or corporate income tax liability, as the case may be, which can mean a more advantageous treatment of the dividend payment in such cases, including repayment of the withholding tax suffered. The Dutch Supreme Court referred three cases to the CJEU in 2013 for a preliminary ruling on whether this tax treatment infringed EU law.
The CJEU has ruled in previous cases that a foreign shareholder cannot be subject to a heavier tax burden than a similarly situated domestic shareholder. The CJEU has confirmed that the Dutch rules constitute a restriction on the free movement of capital, which is in principle prohibited by Article 63 TFEU.
It will be for the National Court to determine the facts and precisely how the treatment differs between resident and non-resident investors which will involve analysing the income and the allowable expenses to be taken into account for resident and non-resident alike. There may be scope for disagreement here, but the outcome seems positive for taxpayers and in particular a number of banks and insurance entities, said Deloitte. See http://deloi.tt/1ijIXWT.

Trouble at t' Co-op Bank

Investigations continue into serious regulatory breaches committed by **the Co-operative Bank**, the regulators' websites revealed. Although individual Co -op Bank executives under the spotlight have not been named, the probe raises the prospect of a permanent financial police force being set up in the UK. The **Financial Conduct Authority (FCA)** and the **Prudential Regulation Authority (PRA)** jointly censured the Bank for various regulatory breaches. The announcement that Co-op was not to be fined raised some eyebrows, but this was not the only interesting aspect of this decision, said lawyers *RPC Finance*.

This was the PRA's second enforcement action following a joint investigation with the FCA. The Co-op Bank's problems arose primarily because in its financial statements published in March 2013, it stated that *'Adequate capitalisation can be maintained at all times even under the most severe stress scenarios, including the revised FSA anchor stress scenario.'* Further: *'A capital buffer above Individual Capital Guidance (ICG) is being maintained, to provide the ability to absorb capital shocks and ensure sufficient surplus capital is available at all times to cover the Bank's regulatory minimum requirements.'*

"Rather unfortunately for all concerned the reality was that since January 15 2013, when the FSA had issued Co-op Bank with revised capital requirements, the Bank did not have sufficient capital to meet its revised capital planning buffer," said RPC Finance. Following the joint investigation which highlighted the problems, the PRA found that Co-op Bank had breached Principle 3. *The PRA found that there were serious and wide-ranging failings in Co-op Bank's control and risk management framework during the period, meaning the firm did not adequately consider the level of risk it assumed and therefore did not have the capability to manage that risk*. The PRA found deficiencies in the management information and a culture which encouraged prioritising the short-term financial position of the firm at the cost of taking prudent and sustainable actions for the longer-term. Arising from this issue, the FCA found that Co-op Bank breached the FCA's listing rules because it failed to ensure that information which was published in relation to its capital position was not misleading. The regulators found that Co-op Bank had failed to be open and (ironically) co-operative with the regulators in breach of Principle 11. Specifically, both regulators criticised the Co-op Bank for its failure to notify them without delay of two intended personnel changes in senior positions.

Despite the seriousness of the various breaches by Co -op Bank neither regulator imposed a financial penalty. Both stated that this was due to the exceptional circumstances of the Co-op Bank's current efforts to meet its Individual Capital Guidance on a sustainable basis. Many subjects of enforcement action, particularly smaller firms and individuals, complain about the apparent injustice of this. The FCA did not quantify what level of penalty would have been appropriate, but the PRA did specify that it would have imposed a fine of £122m, reduced to £85.3m after the Bank did not dispute the findings. It said that a fine of this magnitude would have severely hampered the Bank's plan to meet its ICG. "The other aspect of this matter which will be of interest to senior individuals across financial services is that both regulators said that investigations into senior individuals at Co-op Bank during the relevant period are on-going," said RPC Finance. No further indications were given as to when the proceedings might conclude or who these individuals might be.

French foul-up over restricted stock unit grants

The new French-qualified RSU regime (Loi Macron) finally became effective on August 7 this year, wrote Barbara Klementz of *Baker & McKenzie***.**

"Unfortunately, the news is not all good. This is because the law says that qualified RSUs can be granted under the new regime *only under a plan that has been approved by shareholders after August 7.* We do not expect that any of our clients will ask their shareholders to approve a new plan or re-approve an existing plan just to grant French-qualified RSUs. This means that it is currently impossible for the vast majority of our clients to rely on the new regime (with the exception of only those companies that coincidentally just approved a new plan or had shareholders approve amendments to an existing plan).

"For these companies, until and unless their shareholders approve a plan, the conservative advice is to either not grant qualified RSUs or grant them in reliance on the old regime (with two-year vesting and three-year additional holding period, as well as employer social tax due at grant at a rate of 30 percent)" she said.

Under the old regime, it has been acceptable to grant French-qualified RSUs under a sub-plan adopted by the Board or compensation committee, as long as the sub-plan was adopted before the first qualified grants were made. Baker & McKenzie is lobbying the French tax authorities to give non-French issuers the same concession under the new regime - to agree that it will be sufficient for its clients to grant qualified RSUs under the new regime if a sub-plan has been adopted after the effective date of the new regime.

"Our colleagues in France had first discussions with the tax authorities and they seem to be open to this interpretation, but they have not been willing to give definitive guidance yet. Therefore, again, under a conservative approach, we do not recommend relying on the new regime (unless the plan happens to be shareholder-approved after August 7 2015).

"If companies wanted to take an aggressive position, they should go ahead and adopt a sub-plan under the new regime and grant French-qualified RSUs under the new sub-plan (in conjunction with the main plan). If the French tax authorities eventually agree with our interpretation, it is possible that these grants will be grandfathered in and can rely on the treatment under the new regime.

"However, if the tax authorities disagree with our interpretation or allow it only for grants made after they issue clarifying guidelines, the risk is that companies will have failed to pay employer social tax at grant (as is necessary under the old regime, to which these grants would be subject), in which case penalties may apply. Therefore, companies should carefully consider whether they are willing to take this risk. The French tax authorities have not given us any indication on when (or even if) they may issue clarifying guidelines on the shareholder approval issue. Based on previous experiences, I would not hold my breath and be prepared for this issue to linger for a while," added Ms Klementz.

The old rules governing French-qualified RSUs will continue to apply to any outstanding French-qualified RSUs and to any French-qualified RSUs granted after August 7 this year if the requisite approvals described above have not yet been obtained.

New Requirements

*A minimum vesting period of one year from the grant date (previously, the minimum vesting period was two years).

*A minimum two-year period between the grant date and the date the shares are sold, which can be achieved by a vesting and/or holding period (previously, the minimum holding period was two years from the vesting/share issuance date for RSUs vesting within four years of grant).

*The Macron law eases the condition concerning the one-to-five ratio of shares granted between different employees. Until the entry into force of the law, the difference between the number of shares distributed to each employee could not exceed a ratio of one to five. This ratio applies only where the percentage of share capital allocated exceeds 10 percent (or 15 percent in the case of non-listed companies which meet the EC definition of SMEs).

*Other conditions of the French-qualified RSU regime still apply (e.g., vesting must be accelerated upon death, shares cannot be sold during French closed periods).

*Employer social tax is payable at vesting at a rate of 20 percent on the value of the shares at vesting (previously employer social tax was payable at grant of French-qualified RSUs at a rate of 30 percent on the value of the shares at grant, with no refund if RSUs were forfeited before vesting; also, in contrast, employer social security contributions on non-qualified RSUs are payable at a rate of up to 46 percent on the value of the shares at vesting)

*NB: A company qualifying as an SME which has not distributed dividends since its incorporation, could be exempt from this employer social tax on the gain at vesting up to €38,000 per employee over three calendar years.

Employees will continue to be taxed when the shares are sold on the gain at vesting and the "gain at sale" but some additional benefits are available under the new regime:

*The employee contribution is withdrawn and will not apply anymore.

*The gain at vesting continues to be taxed at progressive rates but the amount of tax can now be reduced by 50 percent if the shares are held for two to eight years or by 65 percent if the shares are held for more than eight years (similar to the reductions available for the gain at sale).

*The gain at vesting is now subject to only 15.5 percent social tax with 5.1 percent of this amount being deductible (previously, the social tax and special contributions were 18 percent).

*The gain at sale continues to be subject to income tax at progressive rates, and the 50 percent or 65 percent reduction described above continues to apply, as well as social tax at 15.5 percent. The changes do not affect French-qualified share options.

OECD report on 56 tax administrations

The OECD published the sixth edition of its comparative information series on tax administration, said Centre member **Deloitte.** The report surveys 56 advanced and emerging economies. Costa Rica, Croatia, Morocco and Thailand are covered for the first time. Key points include:

* 40 percent of revenue bodies reported that they are currently managing the addition of new business activities, amalgamation with other government service providers, and consolidation of work and their office network, at a time when 60 percent saw reductions in staffing. The OECD comments that there are significant staffing reductions in Australia, the UK and the US.

* While 95 percent of all revenue bodies offer the opportunity to file returns electronically, and over two thirds achieve usage above 75 percent, the OECD says more could be done to move other aspects of the process, including assessment, amendment and payment, into a more integrated digital service.

* More than 85 percent of revenue bodies have adopted the structured 'co-operative compliance model' recommended by the OECD for managing their largest taxpayers. One-third use similar arrangements to manage the tax affairs of High Net Worth Individuals.

* Tax Gap measurement is on the increase – 43 percent of revenue bodies undertake or are researching estimates of the aggregate tax gap for some or all of the major taxes they administer.

* Two-thirds of OECD member countries report that their tax law permits voluntary disclosures but only 40 percent have a policy to encourage taxpayers to use these.

* A relatively large number of revenue bodies are successfully using systems to process bulk VAT invoice data for compliance risk management and fraud detection. See http://deloi.tt/1DMMC9I

The Employee Share Ownership Centre Ltd is a members' organisation which lobbies, informs and researches on behalf of employee share ownership