Summary of Typical Employee Share Incentives in Ireland

Type of Award	Description	Advantages	Disadvantages
Share Options	A right to acquire shares at some point in the future at a fixed price. There is generally no obligation on the option holder to buy, and there is usually a pre-determined period of time during which the option can be exercised e.g. between 3 and 7 years after the date of grant, or on a specified event. The employee will generally only exercise the option if the option price is less than the market value of the shares at exercise.	Employee does not have to pay out any money unless he actually exercises the option. Can maximise profit by choosing to buy the shares when their market value exceeds the option price. Once purchased, employee usually free to sell or keep his shares (but may need to realise some funds to pay tax). Terms and conditions of vesting can be used to motivate and retain employee.	Income tax, USC and employee PRSI payable on gain realised at exercise. Depending on share values post-grant, can be rendered worthless in hands of employee. Possible disconnect between value realised by employee and individual performance. Encourages short term focus on share valuation rather than long term shareholder value.
Restricted Share/ Stock Units (RSUs)	A conditional grant or "promise" of shares, often for nil cost. Usually the employee does not have any right to the shares until a stated vesting date in the future, and vesting may be subject to terms and conditions e.g. passage of time, company or individual performance.	Generally defers tax point to vesting. Often does not cost employee anything to acquire the shares. Uses less shares than an option to deliver same value (but company receives no payment from employee). Unlike options no risk of award being worthless. Once acquired, employee usually free to sell or keep his shares (but may need to realise some funds to pay tax). Terms & conditions of vesting can be used to motivate and retain employee.	Employee subject to income tax, USC and employee PRSI on vesting on value of shares at that point (less any price paid). If share value rises employee will be taxed when share value high. Possible disconnect between value realised by employee and individual performance.
Discounted Shares	An opportunity for employees to buy shares at a discount to the market value at the date of purchase. Participation is usually optional and there may or may not be additional terms and conditions attached, depending on how the company designs the scheme.	Employee receives the benefit of the discount immediately, by buying shares for less than they are worth. Delivers value and rewards the employee up-front.	Income tax, USC and employee PRSI on amount of discount. Does not aid staff retention unless specific provisions written in by company e.g. forfeiture.
Restricted Shares	An award of shares where the employee owns the shares up-front but is subject to certain restrictions (including on sale) for a period of time.	May qualify for reduced income tax liability due to restrictions . Employee receives the benefit of the shares immediately e.g. dividend and voting rights. Unlike options, no risk of award being worthless. Aligns employee with ordinary shareholders. Ties in employee to fortunes of company for a fixed period of time. Requires fewer shares than option awards, to deliver same value (but company may receive no payment from employee).	Gives rise to up-front income tax, USC and employee PRSI charge for employee, based on market value of the shares at the outset (but may qualify for abatement of taxable value – 10% abatement per year of restriction up to 60% for restrictions over 5 years). As a shareholder, employee is subject to movements in share value during lock-in period e.g. if share value falls he may pay tax on a higher share value than the shares are worth when the restricted period ends. In order for tax relief to apply must satisfy requirements of legislation e.g. restrictions on sale with only limited exceptions.

Share Appreciation Rights	A grant of contractual rights similar to an option but rather than buying X shares at price Y, the employee has an option over a notional number of shares for a notional price. At exercise he receives the appreciated value (often in cash, but can be in shares), between grant and exercise, of the notional number of shares.	Employee receives cash/shares equal to the increase in share value. Can maximise profit by choosing to exercise the right when market value exceeds notional option price. Terms & conditions of vesting can be used to motivate and retain employee.	Subject to income tax, USC and employee PRSI (also incurs employer's PRSI if paid in cash). Depending on share values post-grant, can be rendered worthless in hands of employee. Possible disconnect between value realised by employee and individual performance. Encourages short term focus on share value rather than long term shareholder value.
Revenue Approved Profit Sharing Scheme (APSS)	An all-employee scheme where shares are allocated to employees on "similar terms" and they are beneficial owners of the shares up front (i.e. hold dividend and voting rights) but they must agree to the shares being held in trust for at least two years. Shares can be delivered after three years free of income tax.	Tax benefit (subject to Revenue limits) for employee and company. Can top-up tax free share allocation by foregoing amount from gross salary up to value of shares employer provides (subject to Revenue limits). Do not lose shares if leave company. Employer can fund the cost of shares by delivering shares in lieu of an existing discretionary cash bonus. Possible to structure as a buy one get one free arrangement.	Format of scheme is governed by legislation, therefore not very flexible. All employees must participate on similar terms. Employees can keep shares even if they leave the company. Restrictions on the type of shares that can be used. All documents subject to Revenue approval process. Participation subject to Revenue limits. Although qualifies for income tax relief, employees still pay USC and employee PRSI.
Revenue Approved SAYE Scheme	A share option scheme that all employees must be offered the chance to join. Employees sign up to a savings contract (3/5/7 years) to save up to €500 per month, and are granted an option at the start to buy a fixed number of shares based on projected savings, at a fixed price (up to 25% less than market value at grant). A tax free bonus is payable on the savings. At the end of the savings period they can use their savings to exercise an option to buy shares. Gains on exercise are generally free of income tax.	Tax benefit for employee and company. Do not have to exercise option, as can choose to take cash instead at end of savings contract. Motivates and retains employees.	Format of scheme is governed by legislation, therefore not very flexible. All employees must be invited to participate on similar terms. Restrictions on the type of shares which can be used. All documents subject to Revenue approval process. Savings by employees are from net income. Although qualifies for income tax relief, employees still pay USC and employee PRSI on exercise of option.
Growth/ Flowering Shares	Growth/Flowering share schemes involve issuing shares with very limited rights which may "grow" into more valuable shares on specified events.	Delivers shares up front to employee. Depending on structure may mean limited income tax at outset and capital gains tax treatment on disposal.	Risks of falling within anti-avoidance legislation for income tax purposes means careful structuring is required e.g. shares may need to be held by majority non-employees.
Joint Ownership Plans	Trust arrangement under which share ownerships is split between employee and employee benefit trust.	Delivers an interest up front to employee. Depending on structure may mean limited income tax at outset and capital gains tax treatment on disposal.	Risks of falling within anti-avoidance legislation for income tax purposes means careful structuring is required.

Note: All share awards in employer company (or parent) are free of employer PRSI.

Note: The accounting implications of the alternatives above should be determined before deciding on any particular scheme.

Note: In private companies special considerations arise concerning the issue of shares to employees which will need to be considered e.g. good leaver/ bad leaver provisions and drag provisions in articles of association, possible use of nominee to hold shares etc.

Note: The above is intended as a general summary only, based on tax law and practice as at November 2013. This summary does not constitute tax or legal advice and does not include any specific recommendations. Specific tax and legal advice should be obtained before implementing any particular share scheme. All references to tax assume participants are resident, ordinarily resident and domiciled in Ireland at all relevant times and that share awards relate solely to an Irish employment. Tax law and practice vary over time.