

INCOME TAX (TRADING AND OTHER INCOME) ACT 2005

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 6: Exempt income

Chapter 4: SAYE interest

Overview

2683. This Chapter rewrites the exemption for interest arising under certain contractual savings schemes, commonly known as SAYE schemes. The sections are based on section 326 of and Schedule 15A to ICTA and on Schedule 12 to FA 1995.
2684. An eligible employee who is granted options under a *SAYE option scheme* must agree to enter into a *linked savings arrangement* operated either by the National Savings Bank or by an authorised financial institution. Where the Treasury are satisfied that the arrangement is a linked savings arrangement, and meets any appropriate conditions, they certify it. Such an arrangement is called a “certified SAYE savings arrangement”.
2685. For the meaning of “SAYE option scheme”, see section 516 of and Schedule 3 to ITEPA.
2686. Under a linked savings arrangement, the employee agrees to save a specific amount each month, which may be between £5 and £250. At the end of the contract period (three, five or seven years) the contributions made will be repaid to the employee together with a bonus (based on the length of the contract and the level of contributions made). The employee may then use the money to exercise his or her share options under the SAYE option scheme. If the employee does not complete the contract, the contributions made are repaid together with interest (where this is due). In both cases, providing the institution operating the linked savings arrangement is authorised (where necessary), and the scheme complies with any Treasury requirements regarding certification, the bonus and interest payments are exempt from income tax.
2687. Exemption was also available for interest and bonuses paid under “ordinary” SAYE schemes, which are not share option linked, where the contract was entered into before 1 December 1994. But any contract entered into before that date will have run its course before 2005-06. The transitional provisions in paragraph 7(1) of Schedule 12 to FA 1995 have therefore not been rewritten in this Chapter.
2688. The exemption from tax is set out in section 702. The remainder of the Chapter defines terms and sets out the administrative requirements for linked savings arrangements and for providers of arrangements.