

Submission
Senate Economics References Committee
Inquiry into Employee Share Schemes

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1. Introduction

CRA Plan Managers Pty Limited (CRA) is an independent consulting business principally involved in designing contemporary remuneration and incentive strategies for companies and their employees. We also assist companies with the administration of their employee share schemes (ESS). The majority of our clients are public companies.

All of our clients are attracted to the legitimate practice of employee equity participation because it represents one of a number of important human resource initiatives that they consider provides their company with a competitive advantage in terms of employee engagement, recognition, retention and reward. They generally and genuinely believe a strong employee ownership culture brings many tangible and intangible benefits to their business.

The changes announced by the Treasurer in the 2009 Budget affecting ESS, the subsequent amendments contained in the consultation paper dated 5 June 2009 and the subsequent press release by the Assistant Treasurer on 1 July 2009 have affected our business and our ability to give clear advice to our clients wishing to undertake equity participation programs in the short term.

Our research shows that forty six (46) of the top 250 listed public companies, by market capitalisation, issued securities under ESS in the period from 28 May 2009 to 30 June 2009. The gross value (number of securities times share price) of these issues was approximately **\$162 million**¹.

This, obviously, is only the 'tip of the iceberg' when considering the overall value of equity incentives offered to Australian employees in a full year. I say "obviously", because it is the sum of values for **only** 46 companies, for **only** one month of issues. It is worth emphasising that this value excludes any offers made earlier in the year by these 46 companies and excludes offers made earlier in the year by all other listed companies that either did not issue securities in the referenced 'window' or were not included in the sample group. It also almost certainly excludes any offers to directors, because shareholder approval is required for issues to a director, and also excludes any equity offered and acquired by way of on-market purchase and any equity offered by unlisted companies in the period.

¹ CRA's analysis of ASX Appendix 3B lodgements in the period.

We would estimate that the annual gross value of all ESS issues in Australia in a full financial year could easily exceed **\$3.5 billion**².

Put simply, the appreciation by the legislators of the scale, strategic application and importance of ESS in Australia, is grossly underestimated and often completely misunderstood.

It is our opinion that the changes proposed have generally been poorly considered and ill timed. They do not appear to have been based on a detailed understanding of the subject matter or with any effort to research or consider the impact the changes may have on Australia's competitiveness, productivity or employee/management behavioural outcomes.

ESS design, documentation, implementation and on-going administration are complex issues. To understand the nuances and multiple applications of ESS requires an advanced knowledge of a number of legal, taxation, behavioural, administrative, accounting and remuneration practices.

Usually, changes that are made in haste, without regard to the totality of the impact of the change, will invariably lead to unsatisfactory and often unforeseen outcomes. That is the path that the Treasurer embarked on with his announcement proposing changes to ESS legislation on 12 May 2009. From that date we have gone from one announcement to another, often contradictory, patched together with compromises proffered by consultative groups to preserve the existing concessions, which were generally considered, prior to the budget, to be inadequate.

Prior to the budget many industry groups were pushing for changes and improvements in the ESS concessions. Some of the progressive changes mooted, include:

- An increase in the exempt benefit limit. \$1,000 (or \$300 tax free) has remained the limit since 1996;
- A change to the deferred benefit rules to allow tax deferral beyond employment to facilitate post-employment performance restrictions on executive share benefits;

² This is based on the total market capitalisation of Australia's listed companies (\$1,100 billion) times 70% (estimated ESS incidence) times 0.5% (Annual ESS activity per company as a % of issued capital = \$3.85 billion per annum.

- Changes to deferred benefit rules to tax the growth in value of the deferred benefit as capital consistent with other asset classes;
- Relaxation of the 5% ownership or control condition for smaller companies;
- Simplified rules to allow all plans to be offered under one master document;
- Limited disclosure statement requirements for offers less than \$5,000 per employee, and simplified disclosure statement requirements for offers between \$5,000 and \$20,000 per employee.

The proposed changes, other than those relating to improvements in the taxation collection and regulation of ESS (which are long overdue), are, in our opinion, regressive, and will reduce the incidence of broad based employee equity participation in Australia.

It is our recommendation that the Senate Economics Reference Committee resolve to:

1. Have the existing legislation (Division 13A (ITAA 36)) preserved while a thorough study of the subject matter is completed either by extending the terms of reference of the Productivity Commission Inquiry into Executive Remuneration or the Henry Taxation Review, or both or a separate inquiry established; and
2. Have appropriate reporting and revenue collection processes introduced immediately to ensure that there is no tax revenue leakage from any existing employee share plan practices while the review is completed.

We now submit our specific comments in accordance with the terms of reference of the Senate Inquiry.

2. Responses to Terms of Reference

(a) The structure and operation of employee share schemes

At the outset, it is our view that an understanding of the key remuneration terms and definitions are critical to grasping the interrelationship of each of the various components. **Table 1** below illustrates some of the terms and their relationships. Once the various remuneration components are understood, the application of ESS benefits to satisfy the remuneration intention of these various components can also be understood, in context. Therefore, in each of the remuneration columns in the Table below, we have provided simple references as to how an ESS benefit might be applied to the particular remuneration component. **Appendix A** gives an overview of the principal ESS structures operated in Australia today under the enabling legislation (Division 13A (ITAA 36)), and the effect of the proposed changes if the new proposed legislation (Division 83A (ITAA 97)) is passed.

The percentage mix of the remuneration components, and the relevant application of an ESS offer to it, will depend on a company's remuneration strategy. There is no precise method or even 'rule of thumb', as each company will apply strategy differently and may change the intention of that strategy and its application from year to year and/or business cycle to business cycle. The process is dynamic and relies heavily on the combined inputs of employer design and innovation, shareholder commitment and approval, employee investment and 'buy-in' and the taxation concessions offered, if any.

Table 1 - Remuneration terms and relationships

Total Fixed Remuneration (TFR)	Short Term Incentive (STI)	Medium Term Incentive (MTI)	Long Term Incentive (LTI)
TFR includes cash base salary, allowances, superannuation and any other benefits costed to 'package', including FBT grossed up.	STI is usually a cash 'bonus' paid at the end of the year and determined by a mix of individual and/or business unit and/or group performance outcomes relative to targets set at the beginning of the period.	Cash and/or shares usually awarded as a deferred component of STI.	Usually equity granted subject to service and performance conditions.
Weekly, Fortnightly or Monthly	Short Term (1 year +)	Medium Term (1 - 3 years)	Long Term (3 years +)
No Risk (Fixed)	At Risk (Variable)		

Employee Share Plans - Example of Applications for each remuneration component

Exempt Share Benefit (Salary Sacrifice)	Deferred Share Benefit (Bonus Sacrifice)	Deferred Share Benefit (Bonus Sacrifice) (Service and/or Performance)	Deferred Share Benefit (Service and/or Performance)
Deferred Share Benefit (Salary Sacrifice)		Performance Rights (Service and/or Performance)	Performance Rights (Service and/or Performance) Option Plan (Service and/or Performance)

(b) The benefits of employee share schemes

The Senate Economics References Committee (the Committee) may be surprised at the almost total lack of well researched and detailed empirical evidence to support ESS incidence and practices in Australia. Whilst there is no irrefutable evidence to prove that ESS work, why then do the majority of Australian public companies, and many unlisted companies go to the cost and effort of establishing executive and general employee equity participation programs?

The answer is complex.

As presented in **Table 2** below the Committee will observe that there is a multiplicity of plans that are mostly quite different, and used for a range of remuneration and incentive purpose. All the plans fall under the one generic term – employee share scheme or plan. There are significantly different costs and benefits for shareholders, employers, employees and government depending on the individual plan type and its method of operation.

Table 2 - Employee share scheme by category of participant

Broad category of participant	How provided
Senior executive long term equity incentive	Options, performance rights or performance (deferred) shares are the preferred ESS for this category of employee.
Management retention and incentive	Performance rights or performance (deferred) shares are the most common ESS for this category of employee.
General employee participation	Exempt or deferred benefit shares are the most common ESS for this category of employee.

The perceived or intended benefits of the various ESS for employees, based on a broad category of employee group, is summarised in **Table 3** over.

Table 3 - Employee share scheme employee benefits

Broad category of participant	Employee Benefits
Senior executive long term equity incentive	Generally, an employee will receive a higher total remuneration opportunity if the company outperforms against the performance criteria set and the executive remains employed for the long term. The cost of the benefit is capped and paid in equity, not cash, whereas the upside benefit is uncapped when settled in equity.
Management retention and incentive	As for senior executives, although often the terms of offer and type of benefit may vary. For example, performance requirements for management may be directed to individual and/or business unit performance in addition to company performance and may even include a component of reward for service only.
General employee participation	Usually a small savings and wealth creation opportunity linked to organisational performance, with a powerful taxation concession (\$1,000 tax free).

The perceived or intended benefits of the various ESS for employers, based on a broad category of employee group is summarised in **Table 4** below.

Table 4 - Employer share scheme employee benefits

Broad category of participant	Employer Benefits
Senior executive long term equity incentive	Properly designed, the reward will align executive benefits with shareholder benefits thus creating a virtuous cycle. The cost of the benefit is paid by existing shareholders and is usually cash flow neutral (performance rights) or cash flow positive (options) to the company.
Management retention and incentive	As with senior executives. Deferred terms of offer usually require both service (retention) and performance achievement before equity vests. Therefore, if the offer terms are not met, no economic cost is incurred.
General employee participation	In its undiluted form, every employee thinks and behaves like an owner of the business and therefore acts and behaves in the best interests of shareholders.

There is significant complexity in researching the measurable benefit of ESS on productivity and performance, mainly because companies that provide ESS often provide multiple types of ESS in any one year and will also offer many other remuneration or human resource initiatives, none of which can be easily tested or removed from the control group to isolate their individual benefits or impact.

Detailed and properly funded research into the benefits of employee equity participation in Australia should be a mandatory precursor to any change.

(c) The taxation issues relating to compliance of employers and employees participating in employee share schemes.

Taxation is an important consideration in most business decisions, including those relating to remuneration and employee equity participation. Because Australia's marginal tax rate on personal exertion income for most employees (i.e. above the relatively modest level of \$35,000 and below \$180,000 per annum) is equal to the corporate tax rate of 30%, there is a relatively strong incentive to minimise this cost for most Australians and their employers.

The legitimate desire to increase "net after tax" remuneration, for example, is clearly illustrated by the large scale 'salary sacrifice' practices undertaken by not for profit, government and quasi-government entities, into all manner of benefits including child care, supplementary superannuation, motor vehicles, motor vehicle running costs, laptop computers, mobile telephones and so on.

Any progressive and competitive organisation will use all the legitimate tools available to them to maximise the net after tax benefit of any remuneration reward to their employees. ESS has become a modest addition to the suite of 'salary sacrifice' benefits for many of these companies.

Division 13A (ITAA 36) was introduced over a decade ago with the intention of providing taxation concessions for employees acquiring shares or rights in their employer company. The legislators, at the time, were convinced by the empirical data from overseas which indicated that companies that encouraged employee share ownership outperformed those that did not. The concessions embodied in Division 13A (ITAA 36) were fairly limited. First, tax deferral for up to 10 years on any qualifying right or share, and second, tax exemption subject to conditions of up to \$1,000 per annum per employee. Studies³ have shown, that properly regulated, these schemes will, over time, actually generate increased taxation revenue, net of the taxation concession.

The majority of ESS are operated and managed in one of two ways. Either, 'on-register' (shares, options and performance rights) which are subject to a 'holding lock' to apply any administrative or forfeiture conditions, or 'in trust' administration (mainly deferred benefit schemes and some exempt benefit schemes), where a

³ See p.18, Employee share ownership and the progressive agenda, June 2009, David Hetherington
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trustee holds legal ownership of the share or right and beneficial and legal ownership is 'vested' once all the conditions of offer have been satisfied.

For on-register plans, there are really no additional compliance obligations, when compared to ordinary shareholdings, for employers under the existing taxation regulations, other than to ensure that offers are made in conformity with the taxation legislation (and any other regulatory requirement). All the taxation compliance obligations such as completing taxation elections (S.139E election) and maintaining detailed acquisition, disposal, dividend or other taxation records rests with the employee. This may be supported by information provided by plan administrators.

For trust based plans, it is common for plan members to have fully supported taxation records. Further, all distributions including dividends paid or shares transferred or sold under trust based plans must be provided to the tax office annually including participant name and tax file number. Therefore, for trust based plans there is an existing method of detailed taxation compliance already established and operating.

The proposed Division 83A (ITAA97) seeks to "better target eligibility for the employee share scheme tax concessions and reduce opportunities for tax avoidance". If stopping tax avoidance is the intention of the proposed changes, as espoused, then the answer to the problem was set out in the Consultation Paper's Appendix D: International comparisons point 22, which states, in relation to UK plans.

"Companies must set up a trust to hold the shares. Companies or a trustee must record and monitor awards of the shares to ensure correct tax treatment when employees tax their shares out of the plan. The company or trustee will be responsible for PAYE or national insurance obligations."

This establishment of trust based arrangements would ensure a number of valuable outcomes, including:

1. Clarity of taxation obligations for all employees;
2. Confidence of correct tax remittance;
3. Regularity of tax receipts based on the frequency of trustee's tax payments.

Consideration should therefore be given to having all ESS arrangements provided under a trust based arrangement where the taxation and reporting obligations are already clearly established and functioning.

(d) The recent announcement (sic) of proposed changes to the treatment of employee share schemes, the background of those changes, consultation undertaken to develop these changes and the anticipated impact of these changes on employees, employers and Australian business generally.

We are not qualified to comment on the background to the changes to the treatment of ESS announced in the May Federal Budget, although it would appear that a submission made to Treasury by ACOSS, prior to the Budget may have been influential. As far as we can ascertain the estimates of revenue savings announced in the Budget are pure guess work and not based on any valid research or data modelling.

Further, we are unable to comment on the consultation process, because we were not consulted, although we are aware that some sections of the consulting advisory industry, mainly those representing large organisations were consulted only after the Budget, when a media furore erupted over the announced changes. We understand this consultation process may be continuing.

We are however qualified to comment on the anticipated impact of these changes on employees, employers and Australian business generally. Some of the things we contend are likely to happen, if the proposed changes are legislated, will include:

- Many companies will suspend their general employee share plan offerings in the September quarter (2009) as they await the results of the Senate Inquiry and the passing of the legislation. Because the taxation law changes are to be back dated to 1 July 2009, most Board's will be reluctant to undertake offer programs without legislative certainty.
- As the majority of CEO and director equity allocations require shareholder approval and the Annual General Meeting season for the majority of companies occur between 1 October and 30 November, we would expect equity offers to these executives to be shaped largely in accordance with the draft or approved legislation. If the legislation is drafted in line with the 1 July press release we would expect two main outcomes. First, performance shares or performance rights are likely to be preferred over options, although 'non-qualifying' share plans, such as loan share plans may make a come back. This will reflect the comparatively adverse taxation treatment for

options. Second, the size (number of securities offered) of equity allocations will be greater than would be the case without the change. This will reflect the lesser 'expected life' of the benefit resulting in a lower remuneration value per ESS security, meaning more securities for each \$ of "at risk" remuneration will be issued.

- There may be unintended outcomes such as highly structured arrangements purposely constructed outside the new 'qualifying' arrangements that may create improved taxation outcomes for participants.
- There is likely to be an increase in the number of requests for private binding rulings from the Australian Taxation Office, as users seek clarity and definition of such uncertain, highly interpretive terms as 'genuine risk of forfeiture' and 'other restrictions' and so on.
- There is likely to be a significant decrease in the incidence of voluntary and compulsory deferred share benefit programs. This will be disadvantageous to taxation revenue, over time, if on average, the value of securities is greater at the cessation date than at the grant date (all other things being equal).
- Some of the voluntary and compulsory deferred share benefit programs will be replaced or replicated by deferred cash programs, thereby defeating the supposed intention of receiving taxation receipts earlier anyway, but will not have the complimentary 'alignment of interest' benefit imbedded in them.
- Overall, there is likely to be a significant divergence between ESS practices for senior executives and employees. Equity programs will continue for senior executives in modified form accommodating the changes and as suggested in an earlier point the number of securities offered to this group may well increase reflecting the lower notional remuneration value of securities with a shortened "vesting" period. On the other hand, companies may restrict their equity offer programs (that is offer fewer securities to fewer employees) because the taxation concessions are less compelling.
- Because of the adverse taxation consequences, particularly applying to option plans, for illiquid public companies and most unlisted companies, it is likely that the frequency of equity participation in unlisted companies will be

severely reduced. This will impose higher cash costs on these businesses and will disadvantage them in the competition for skilled senior executives.

- If the benefits of 'broad based' employee share ownership are real, as is implied by the international empirical evidence, then the corollary is that, as a collective, Australian companies will become less competitive and productive and the division between capital and labour will become more pronounced. This may take decades to recover from.

Regrettably, because of the absence of properly funded and detailed research, the suggested outcomes noted above, if they eventuate, will probably not even be recorded, or other factors will be assumed to have caused the damage.

(e) The rules governing employee share schemes in other countries

Most advanced economies offer some form of taxation neutrality or concession to ESS benefits. Some countries, such as the United Kingdom and the United States of America offer significant taxation concessions.⁴

The major accounting and legal firms are far better qualified to explain the extent of these concessions and their relative benefits when compared to Australia.

I will limit my comments to one simple, almost universally used plan: the option plan.

The proposed method of taxing options will position Australia completely out of step with all comparable countries. **Table 5** below, illustrates the taxing point on employee options for a selection of countries. Of all the countries listed, only Australia will adopt the draconian measure of taxing ‘benefits’ derived from options by employees based on ‘notional’ values.

Table 5 - Taxing point for employee options, by country

At grant date	At vesting date (usually three years after grant date)	At exercise date (usually after three years and before five years)	Not taxed
Australia [^]	Australia #	China	Dubai "
		Germany *	Oman "
		France *	
		Ireland *	
		Malaysia	
		Netherlands *	
		India*	
		Singapore *	
		Spain	
		United Kingdom *	
		United States *	
		Thailand	
		New Zealand	
		Hong Kong *	

[^] Tax paid up-front if option plan not

Income tax by employee, no concession

* Concessional rate or terms applied

" Tax free

As you can see from **Table 5**, many countries not only allow continuing deferral of taxation beyond the vesting date, but also encourage the use of options by offering a complex range of additional taxation concessions.

⁴ See p.13-18 Employee share ownership and the progressive agenda, June 2009, David Hetherington
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Australia, if the proposed changes are adopted, will assume the position of “world’s worst” practice, at least in respect of employee options.

The impact of these changes will be hardest felt by smaller public companies and all unlisted companies. The impact of imposing a tax on a “notional” rather than a “realised” benefits should not be understated.

(f) Any other related matters

Most of the other related matters deal with 'simplification' of ESS practices. This includes:

- The compliance and legal complexity of offering employee share plans in Australia is unreasonably burdensome. The prospectus relief exemption for employee share plans is unreasonably prejudicial to small, medium and unlisted enterprises. A modified short form disclosure document should be developed where the \$ value of the individual's investment risk is less than a defined \$ amount.
- The taxation and income statement valuation rules in respect of ESS are unnecessarily complex and need to be simplified in the interests of cost v. benefit and consistency.
- The disclosure requirements for executives receiving ESS benefits in Australian public companies is unnecessarily complex and leads to confusion rather than improved understanding by shareholders. Simplification and quality disclosure of the key relevant information is required, not more technical disclosures, which hide the reality.
- Given the scale of ESS participation in Australia, the regulation and information gathering process is woefully inadequate. Resources to ensure proper regulation and reporting would be beneficial to all legitimate practitioners and interested parties.

Summary of various ESS offers and the impact of the proposed changes announced by the Assistant Treasurer

Type of Offer	How Paid	How funded	Reasons for the Offer	Current Division 13A (ITAA) Plan	Proposed 'New' Section 83A (ITAA) Plan	Nature of Change	Effect of the Changes
\$1,000 tax exempt benefit (a.k.a \$1,000 tax free plan)	Either by 'salary sacrifice' or free grant or a mix of both.	By way of an issue (shareholder dilution) or on-market purchase (cash).	To encourage general employee equity participation, savings and/or wealth creation.	Offer must be non-discriminatory to 75% of employees with > 3 years service. Also see qualifying conditions. \$1,000 is tax free any gains are taxed as a capital gain.	Offer must be non-discriminatory to 75% of employees with > 3 years service earning less than \$180,000 per annum. Also see qualifying conditions. \$1,000 is tax free any gains are taxed as a capital gain.	Regressive	Minimum impact, however, the declining value of the tax free benefit in NPV terms and progressive tax scales erodes impact of this plan benefit.
Salary Sacrifice under a Deferred Benefit Plan (a.k.a. Share Save Plan)	Salary sacrifice	By way of an issue (shareholder dilution) or on-market purchase (cash).	Voluntary offers are to encourage general employee equity participation, savings and/or wealth creation.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Regressive	Significantly restricted use of 'salary sacrifice' arrangements leading to significantly reduced general employee equity participation.
Salary Sacrifice under a Deferred Benefit Plan (a.k.a. Share Save Plan)	Salary sacrifice	Compulsory offers may be to meet 'minimum shareholding requirements for senior executives or Non-Executive Directors	Compulsory offers may be to meet 'minimum shareholding requirements for senior executives or Non-Executive Directors				Significantly restricted use of compulsory 'salary sacrifice' arrangements leading to significantly reduced participation.
Bonus Sacrifice under a Deferred Benefit Plan (a.k.a. Share Bonus Plan)	Bonus sacrifice	By way of an issue (shareholder dilution) or on-market purchase (cash).	Voluntary offers are to encourage general employee equity participation, savings and/or wealth creation.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	For amounts above \$5,000 and subject to meeting the qualifying conditions participants may defer tax to the earlier of vesting date (when 'real risk' of forfeiture satisfied) leaving employment, selling or transferring the shares or 7 years, whichever is earliest.	Regressive	Significantly restricted use of 'bonus sacrifice' arrangements leading to significantly reduced general employee equity participation.
Bonus Sacrifice under a Deferred Benefit Plan (a.k.a. Share Bonus Plan)	Bonus sacrifice	Compulsory offers may be to impose continuing alignment of interests between employees and shareholders, to conserve cash and/or to smooth bonus earnings and/or to limit bonus denardependency.	Compulsory offers may be to impose continuing alignment of interests between employees and shareholders, to conserve cash and/or to smooth bonus earnings and/or to limit bonus denardependency.				Significantly restricted use of compulsory 'salary sacrifice' arrangements leading to significantly reduced participation.
Incentive Offer under Deferred Benefit Plan (a.k.a. Performance Share Plan)	Medium or Long Term Incentive	By way of an issue (shareholder dilution) or on-market purchase (cash).	Offers can be subject to an infinite range of performance and/or service requirements	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 7 years, whichever is earliest.	Regressive	Ironically, the incidence of this type of plan even where it is not suitable may increase because of the adverse tax treatment for options under the changes proposed.
Incentive Offer under a Qualifying Rights Plan (a.k.a Zero Priced Options or Performance Rights Plan)	Medium or Long Term Incentive	Usually, by way of an issue (shareholder dilution).	Offers can be subject to an infinite range of performance and/or service requirements	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of vesting date (when 'real risk' of forfeiture satisfied) leaving employment, selling or transferring the shares or 7 years, whichever is earliest	Regressive	Due to adverse tax treatment 'premium' priced options will be rarely offered.
Incentive Offer under a Qualifying Option Plan (Premium Price)	Medium or Long Term Incentive	Usually, by way of an issue (shareholder dilution).	Offers can be subject to an infinite range of performance and/or service requirements	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of vesting date (when 'real risk' of forfeiture satisfied) leaving employment, selling or transferring the shares or 7 years, whichever is earliest	Regressive	Due to adverse tax treatment 'market' priced options will be used less frequently, even when they might be the preferred structure from a strategic perspective.
Incentive Offer under a Qualifying Option Plan (Market Price)	Medium or Long Term Incentive	Usually, by way of an issue (shareholder dilution).	Offers can be subject to an infinite range of performance and/or service requirements	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of vesting date (when 'real risk' of forfeiture satisfied) leaving employment, selling or transferring the shares or 7 years, whichever is earliest	Regressive	Used infrequently now and will be used infrequently in future for reasons unrelated to the changes proposed.
Incentive Offer under a Qualifying Option Plan (Discounted Price)	Medium or Long Term Incentive	Usually, by way of an issue (shareholder dilution).	Offers can be subject to an infinite range of performance and/or service requirements	Subject to meeting the qualifying conditions participants may defer tax to the earlier of leaving employment, selling or transferring the shares or 10 years, whichever is earliest, or elect to pay tax upfront on the 'Market Value' of the benefit.	Subject to meeting the qualifying conditions participants may defer tax to the earlier of vesting date (when 'real risk' of forfeiture satisfied) leaving employment, selling or transferring the shares or 7 years, whichever is earliest	Regressive	