



**Restricted Stock Units (RSUs)
Firm Policies
- IT and Operations-based
Management Consulting Firms -

United Kingdom**

March 3rd, 2014

Version 2.2

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Vencon Research was asked to survey the use and taxation of RSUs amongst consulting firms

Background

- Vencon Research International was approached to conduct a survey regarding the usage of and company policies regarding the issuing and taxation of RSUs (Restricted Stock Units).
- In the United Kingdom, once a stock or share vests National Insurance Contributions (NICs) or Social Security Costs (SCCs) are due along with income tax and Capital Gains Tax.
- Our survey set out to question:
 - Whether a firm offered RSUs to their employees;
 - If so, to which career levels RSUs were offered;
 - How the Social Security contributions were divided between employee and employer once the RSU vested.
- The data contained herein has been gathered up to and including March 3rd, 2014.

RSUs were offered by only few firms, foremost to the Senior Manager career levels and above

Executive Summary

- **Out of 25 IT, strategy, and full service operations-based consulting firms contacted, 16 firms (= 64%) provided information regarding the use of RSUs.**
- **Of the 16 firms responding, six firms confirmed offering RSUs (= 37.5% of all participants).**
- **However, only one of these six firms offered RSUs to all levels, whereby RSUs were then offered only to “selected employees with leadership potential”.**
 - **The remaining 5 firms offered RSUs to the Senior Manager career levels and above.**
- **Five of the six firms offering RSUs paid for the employer’s share of Social Security Costs, but not for the employee’s, whereby:**
 - **One firm required the employee to pay for both the employee’s and the employer’s share of Social Security Costs.**
 - **Hence, all six firms confirmed the employee was responsible for paying their own share of Social Security Costs.**
- **All six firms confirmed the employee was responsible for paying their own share of relevant Income and Capital Gains Tax.**

Defining Restricted Stock Units (RSUs) in the UK

Restricted Stock Units

Legislation	Comments
Restricted Stock Units	<p>Restricted Stock Units (RSUs) are a type of compensation in which an agreement is made to issue stock or shares to an employee once specific vesting requirements are met. When all the conditions are laid down, an award will vest until the requirements are fulfilled and the stock or shares may be issued. RSUs are a common alternative to stock options and differ from “restricted shares” in which an actual grant of shares is given to a participant. RSUs also do not represent ownership or equity interest and have no voting or dividend rights.</p> <p>Vesting requirements for RSUs may be time-based whereby a length of service at the firm is required before the employee may receive the shares or be performance-based, whereby the vesting requirements are tied to specific achievements.</p> <p>Shares are not delivered until the employee satisfies the vesting schedule which will define when RSUs will vest. For example, 25% per year over 4 years or 20% per year over 5 years. At each vesting date the employee will be entitled to receive company stock or shares equal to the net value of the RSUs which have vested.</p> <p>Upon completion of vesting requirements, the employee is granted the opportunity to receive the cash equivalent of the shares at the time of completion or, depending on company policy, retain the stock. A combination of employer stock and cash compensation may also be possible. In some cases, employees may be allowed to defer receipt of the shares or the cash equivalent until a later date.</p> <p>With RSUs, even if the share price falls after the date of award, the units will still retain some value, unlike a normal market value share option.</p>

Sources: *HM Revenue and Customs* - “Employment-related securities and options: what are securities: Long Term Incentive Plan (LTIP)” (<http://www.hmrc.gov.uk/MANUALS/ersmmanual/ersm20192.htm>), *HM Revenue and Customs* - “Employment-related securities and options: what are securities: RSUs and dividend equivalents” (<http://www.hmrc.gov.uk/manuals/ersmmanual/ERSM20193.htm>).

Taxes and social costs associated with RSUs

Restricted Stock Units - Tax and Social Costs

Legislation	Comments
Restricted Stock Units – Tax and Social Cost Regulations	<p>Tax on RSUs is not charged on award but rather when the employee becomes vested in the shares, much in the same manner as share option gains are taxed when exercised. RSUs may be reported as ordinary income in the year the stock becomes vested and taxed accordingly based on the rates of Capital Gains Tax.</p> <p>In the United Kingdom RSUs are subject to National Insurance Contributions (NICs) which must be paid by either the employee, the employer or by both parties. The employer is not liable for the social security contributions due on the employee's vested RSUs. Payment of NICs on vested RSUs is normally decided through the initial contractual obligations set out in the vesting requirements.</p>

Sources: *HM Revenue and Customs*, "Employment-related securities and options: what are securities: RSUs and dividend equivalents" (<http://www.hmrc.gov.uk/manuals/ersmmanual/ERSM20194.htm>), *US Securities and Exchange Commission*, "Appendix C- Guide to Tax Issues in United Kingdom", (<http://www.sec.gov/Archives/edgar/containers/fix014/712515/000119312509237582/dex99a1z.htm>)

Six of 16 firms confirmed offering RSUs to employees

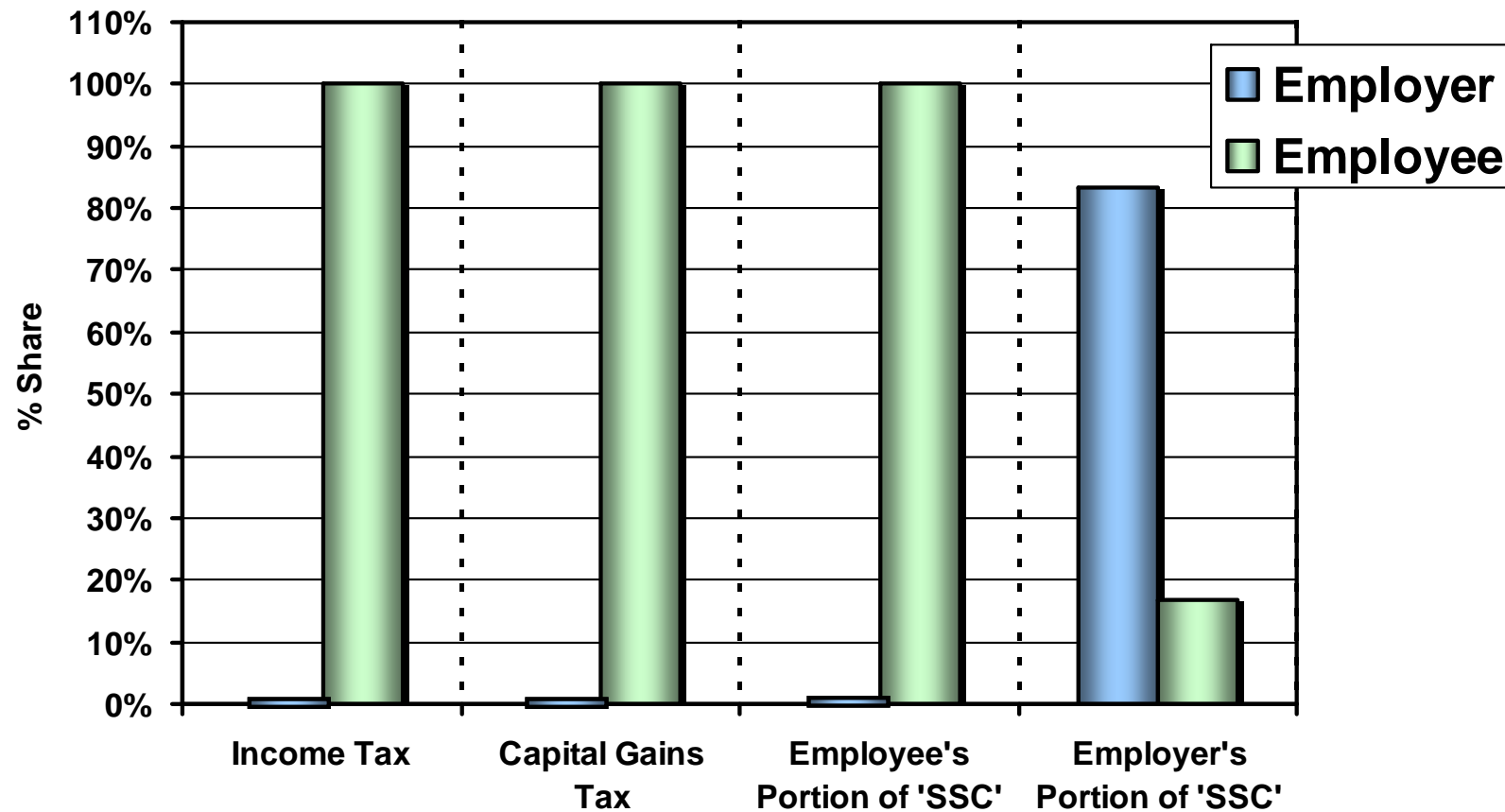
Restricted Stock Units Project - Results

Firms	'RSU' offered to Consultant	Eligibility	Who paid Income Tax?	Who paid Capital Gains Tax?	Who paid Employer's portion of Social Security Costs (SSC)?	Who paid Employee's portion of Social Security Costs (SSC)?
Firm 1	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 2	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 3	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 4	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 5	Yes	Selected employees with leadership potential	Employee	Employee	Firm	Employee
Firm 6	Yes	Sen. Manager (some) Principal (all)	Employee	Employee	Firm	Employee
Firm 7	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 8	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 9	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 10	Yes	Principal	Employee	Employee	Firm	Employee
Firm 11	Yes	All levels	Employee	Employee	Firm	Employee
Firm 12	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 13	Yes	Principal	Employee	Employee	Employee	Employee
Firm 14	No	Not applicable (N/A)	N/A	N/A	N/A	N/A
Firm 15	Yes	Principal	Employee	Employee	Firm	Employee
Firm 16	No	Not applicable (N/A)	N/A	N/A	N/A	N/A

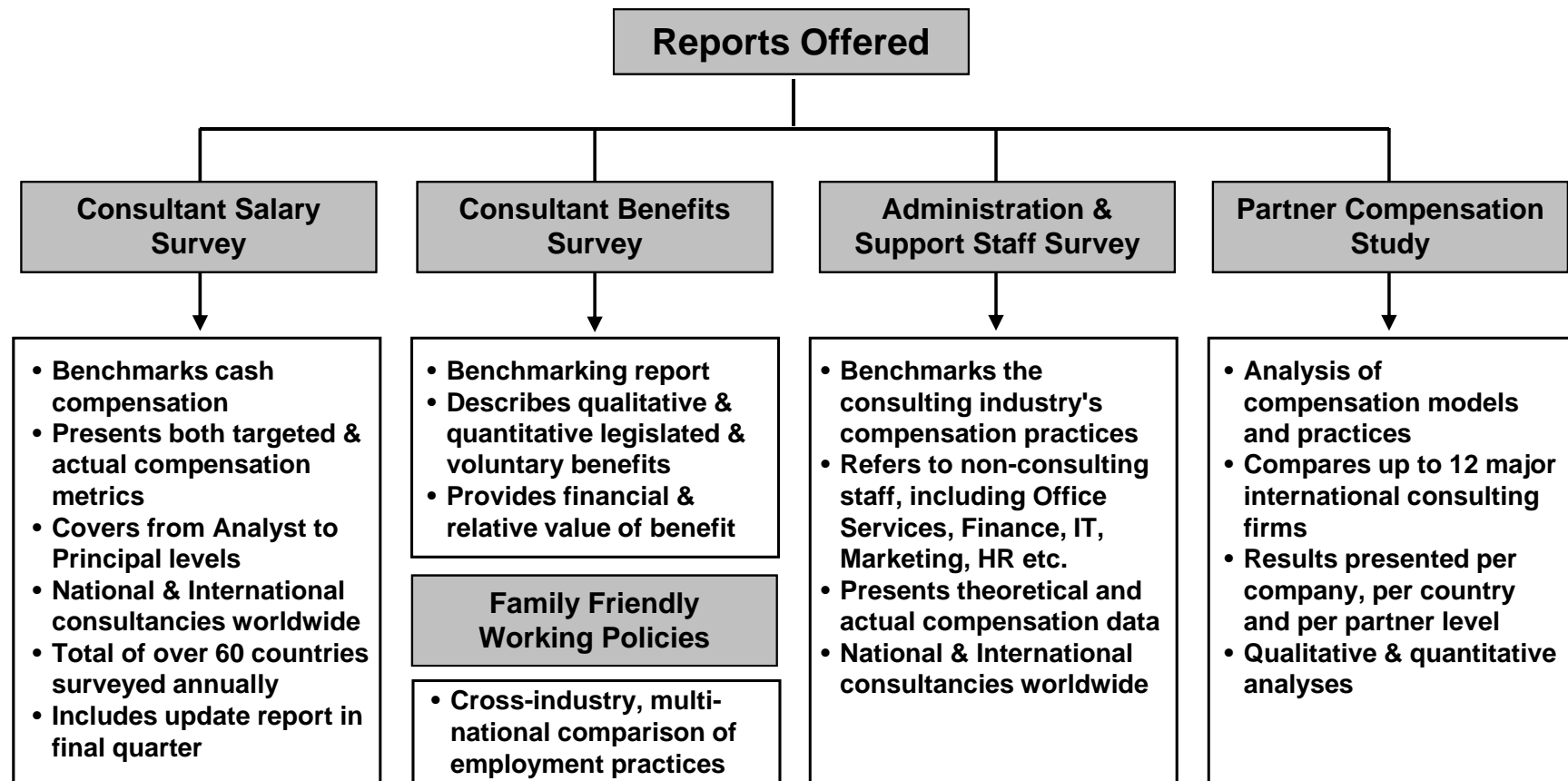
Note: Firm 14 offered RSUs only to non-consultant staff. The firm was responsible to pay the employer's portion of social security costs.

One firm required the employee to pay the employer's share of Social Security Costs (SSCs)

Who Paid: Income Tax? Capital Gains Tax? Social Security Costs (SSC)? (in % of participating firms)



A wide variety of compensation related topics within the consulting industry are covered



- Other bespoke reports and comparisons on the consulting industry are regularly undertaken by Vencon Research International, e.g. ‘Detailed Overview of Car Plans’, ‘Total Income Valuation Comparison’ and ‘International MBA Starting Salaries’.

Our benchmarking reports analyse the major consulting geographies throughout the world

Country Market Reports



- These reports can be purchased either singularly or in geographically coordinated packages.
- Other bespoke country reports can be ordered if required.

Vencon Research International: For hard-to-get compensation metrics

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