Employee share plans and social responsibility

It's not often that employee share plans are thought of in terms of social responsibility and their contribution to society, but why not?

Employee share plans, especially through broad based plans, provide a source of capital to many workers that typically have limited access to capital. Research has also linked employee share plans to workforces that are more productive, sustainable, inclusive and diverse.

Furthermore, the tax that is collected from the income generated from employee share plans often contributes to social works such as the building of hospitals, schools and roads.

In considering employee share plans through a social responsibility lens, we should consider:

What changes can be made to employee share plans to provide a greater contribution to society?

One possible change is the introduction of tax withholding on employee shares and rights.

Currently, income tax on employee shares and rights is typically not collected until the employee pays the tax on assessment of his or her tax return.

Depending on the timing of the taxing event and when the employee's tax return is due for lodgement (especially if lodged via a tax agent), this can be up to almost 2 years after the timing of the taxing event. This deferral of tax is a cost to society. This delay in receipt of the relevant tax for such an extended period also increases the possibility of the tax not being collected.

In nearly all countries around the world (both developed and emerging), tax is collected on employee shares and rights by employer tax withholding at the time of the taxing event. This ensures timely collection of the relevant tax and reduces the risk of tax avoidance. Furthermore, imposing tax withholding on employee share and rights simplifies the taxation of employee share plans for participating employees. As tax is withheld at the taxing event, it removes the ability for employees to be surprised with a significant tax bill on assessment of their tax return from an employee share transaction that occurred many months earlier.

The introduction of tax withholding on employee shares and rights would not only bring Australia into alignment with the rest of the world in terms of the collection of tax on this form of income, but it would benefit society from the more timely and efficient collection of this tax. At the same time, it will simplify the tax implications for participating employees.

A conversation of employee share plans that also considers and promotes the contribution to society will highlight the positive flow-on effects of employee share plans, progressing the discussion on other changes that may facilitate the benefits and operation of employee share plans.

Marc Bosotti,
Director
Tel: +61 (2) 8266 7855
Marc.bosotti@pwc.com