

Employee Share Schemes

What are they & why use them?

Employee share schemes are an effective way to offer equity-related awards to employees. They can help you recruit, retain and incentivise employees by giving them a direct financial interest in the success of your company.

Shares can be given as a reward for achieving performance goals such as a target increase in sales or the completion of key projects on time and in budget.

Awarding staff shares in a company develops a real sense of ownership and ultimately increases loyalty and engagement. This helps to align employees' interests with those of shareholders, drive growth, and ultimately increase share value.

Employee share options are a tax efficient way of rewarding employees. A share option is the right to buy a set number of shares in a company at a fixed price during a set period of time. An advantage of granting options is that an employee is subject to tax when shares are awarded to them whereas no immediate tax liability arises on the grant of options.

There are a number of share schemes available and we can work with you to implement the scheme which is right for your business.

Enterprise Management Incentive (EMI) scheme

An EMI scheme is often the best option as it is approved by HMRC and offers significant tax advantages to the employees participating in the scheme.

To be eligible for an EMI scheme, a company must be independent with gross assets not exceeding £30m, have less than 250 employees and be engaged in a qualifying activity. If a company is a member of a group, these limits need to be considered for the group as a whole. Options can be issued over the shares of a non-UK parent company to UK employees of a local subsidiary.

Any full time employee of a qualifying company may be granted share options over shares with a market value of up to £250,000 at the time of grant, subject to an overall limit of £3 million. This gives the company total flexibility to select which employees enter the scheme. Individual performance and retention conditions can be built in, helping to ensure rewards are only given when key corporate objectives have been met.

There is no minimum period for how long the options must be held before exercise. However, they must be exercised within 10 years otherwise the options lapse.

Employees receiving EMI share options will not have to pay income tax or national insurance contributions (NICs) when options are granted or when the option is exercised to buy shares, provided the exercise price of the option is not less than the market value of the shares at

the date the option is granted. Options can be issued at less than market value, but PAYE and potentially NICs will be due if the employee does not pay market price for the shares.

On sale of the shares the gain made is subject to Capital Gains Tax (CGT). Entrepreneurs' relief may apply to reduce the rate of CGT from the standard rate of 20% to 10%. For EMI purposes, the requirement for a minimum 5% shareholding to obtain entrepreneurs' relief is removed but for this relief to be available it is necessary for the options and the shares acquired post exercise to be held for, overall, at least 12 months.

If your company doesn't qualify for an EMI scheme, we can advise you on the following alternative plans.

Company Share Option Plan (CSOP)

A company share option plan (CSOP) enables companies to grant share options to selected full time directors or either full or part time employees. There is no restriction on the number of hours worked per week unlike with EMI options. Each individual can hold options on shares worth up to £30,000 at the date the option is granted. The options must be capable of being exercised between the third and tenth anniversaries of the date of grant.

The scheme is aimed at rewarding key individuals in the same way as the EMI scheme so individual performance targets can be built in when the options are granted.

The share options are still an attractive benefit as provided the requirements of the scheme are met, there will be no charge to income tax or NICs on the exercise of the options.

The gain made on the sale of the shares will be charged to CGT at a rate ranging from only 10% if Entrepreneur's Relief applies, to 20%.

Savings Related Share Option Scheme (SAYE)

SAYE is another HMRC approved share option scheme but unlike EMI and CSOP it must be open to all employees and individual performance targets cannot be built in.

The purpose of the scheme is for employees to save a monthly amount of up to £500 for three or five years, which they can use to buy shares. The shares can be purchased at a maximum discount of up to 20% of the value of the shares at grant. There is no tax until the shares are disposed of when CGT will be payable on any gain made.

Share Incentive Plans (SIP's)

The SIP is a tax advantaged employee share scheme that must be offered to all eligible employees of a company on the same terms.

Shares are awarded through one, or a combination, of free shares, partnership shares and matching shares. Free shares can be given to employees without a tax charge (usually a gift of shares to an employee will be subject to income tax and NIC's on the value of shares received). Partnership shares can be bought by employees out of pre-tax salary. Employees can receive two free matching shares for each partnership share purchased.

Under the SIP each employee can receive shares worth up to £9,000 per annum.

The shares awarded are held within a Share Incentive Plan Trust on behalf of the employees. After a five year period, the shares can be sold and no income tax or NIC's will be due. The shares whilst held within the trust are also free of CGT.

Unapproved Share Option (USOP)

Unapproved share options have a less favourable tax status but are very flexible and easy to administer. They offer selected employees the opportunity to purchase shares in a company at a fixed price.

Individual performance targets can be built into the plan, helping to ensure rewards are only given when key corporate objectives have been met.

It can be used as a stand alone share option plan or often it is used with the tax advantaged CSOP to provide additional awards over the CSOP limits.

How Ensors can help

There are many different types of share scheme, each can be tailored to suit the needs of your business. We can advise on which scheme is best for your business and employees, and set the scheme up so that it maximises the available tax benefits and ensure it is compliant with HMRC regulations. We can also prepare the share scheme valuation and advise you on the impact of the share option scheme on your accounts.

For further information, please contact your usual Ensors contact or speak to Tim Shaw, Associate Partner on 01223 428314 or email tim.shaw@ensors.co.uk.