Joint Ownership Plans

A joint ownership plan (JSOP) enables a senior employee to participate in the future growth of their company, paying capital gains tax on their gains, with low initial income tax charge.

Assuming that the intention is to allow an executive to benefit from 1 % of the growth in value of the increase in the value of the company above £2 per share and that there are 4 million shares in issue:

- the Company establishes an employee trust which subscribes for 40,000 ordinary shares;

- the trust splits the shares into two interests: one interest (the "Initial Interest") entitles the holder to 99.99 % of the first £2 of the value of the share and 0.01 % of any growth; and the other interest (the "Growth Interest") is the mirror interest, i.e. it represents 0.01 % of the initial value of the share and 99.99 % of any growth;

- the Growth Interest is sold to the executive for its market value, which will need to be agreed with specialist valuers but might, for example, be 10p to 15p per share;

- the Growth Interest is an "interest in a share" for capital gains tax purposes, and the executive will therefore pay capital gains tax at 28 % on any gain on its disposal. There will be no income tax or national insurance contributions payable.

- as a condition of the purchase of the interest, the executive will be required to execute a clawback option agreement under which they agree to forfeit their interest back to the trust if they leave employment within, for example, a three year period or if certain financial performance targets relating to the Company are not fulfilled;

- once the clawback option has lapsed, the trust will, if requested by the individual, sell the shares and forward the appropriate percentage to him or allow the individual to convert, say, a 50 % interest (assuming a then value of £8 per share) in the value of 40,000 shares to an entire interest in 20,000 shares. These shares could then be sold for £160,000 with only CGT payable;

- in the event of a change of control in the Company, interests will generally vest in full although it will be open to a purchaser to offer to substitute its own shares for the company's shares subject to the JSOP on a basis considered by the auditors to be equivalent.

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EMPLOYEE OWNERSHIP LAWYERS

Joint Ownership

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
No IT or NICs if interest purchased for market value. CGT on sale of shares.	No CT deduction if interest purchased for market value. No NICs on same condition.	Usually operated with an employee benefit trust. Other documents also required.	A little more complex to explain than other schemes, little risk, tax efficient.

Other issues

There are likely to be valuation questions on the receipt of the interest in the shares.

If you would like to explore how an employee share scheme might be introduced in your company, please contact us for an initial discussion.

We are happy to meet at our offices without charge or commitment and will be very pleased to hear from you.

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