

Nil Paid Shares

If an employee is awarded nil paid shares, the time when he has to pay for them will be deferred.

The reason for awarding nil paid shares is often to combine two advantages.

First, to enable the employee to acquire shares (rather than options) from the outset which will give them an immediate personal financial stake in their company, and so the risk of loss if the company loses value as well as gain if it grows in value. This may be seen to have the related advantage of gains in value being subject to capital gains tax (rather than income tax and National Insurance).

Second, to avoid the employee having to pay for the shares immediately. Instead, payment will be due on a future date or event (such as the employee selling their shares).

So long as the amount ultimately payable is not less than the shares' value when they are acquired by the employee, he will not be subject to income tax or National Insurance on their value when he acquires them.

And so long as the unpaid amount is subject to interest at HMRC's Official Rate, the employee will not be due to pay tax on the deferral as an employment benefit. However, he will be liable for tax if there is no interest or it is less than the Official Rate.

Unlike with options, any employee acquiring nil paid or partly paid shares will eventually have to pay for them, so they do carry risk.

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Share purchase

TAX EFFICIENCY (INDIVIDUAL)



No IT or NICs if shares purchased for market value. CGT on sale of shares – but shares must be paid for at some point.

TAX EFFICIENCY (COMPANY)



No CT deduction if shares purchased for market value. No NICs on same condition.

EASE OF SETTING UP



Usually just a subscription letter.

OVERALL INCENTIVE AND REWARD VALUE



Simple to explain. There is economic risk, but tax efficient.

Other issues

Valuation questions may arise. Liability to pay purchase price may be deferred but never eliminated.

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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