

Restricted Shares

If an employee is awarded restricted shares, this means that at least initially his ability to benefit from their ownership will be restricted but the restrictions will lift over a period of time.

The reason for awarding restricted 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 encourage the employee to stay with the company by providing that for an initial period (e.g. three or five years), the shares may be forfeit if the employee leaves and may not enjoy other benefits such as the right to receive dividends.

The taxation treatment of restricted shares can be relatively complex. For the employee to be subject only to capital gains tax on selling their shares, they will either have to have paid the shares' full value on acquiring them (disregarding any value discount caused by the restrictions) or income tax (and possibly National Insurance) on any discount.

Ground Floor, 9 Staple Inn, London WC1V 7QH

T 020 3818 9420 E info@postlethwaiteco.com W www.postlethwaiteco.com

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Restricted shares

TAX EFFICIENCY (INDIVIDUAL)



ITs and NICs on vesting – but participant and company may elect to pay this upfront. CGT on any further gains between exercise and sale.

TAX EFFICIENCY (COMPANY)



CT deduction on vesting. NICs may be transferred to participant.

EASE OF SETTING UP



Often operated with an employee trust.

OVERALL INCENTIVE AND REWARD VALUE



Simple to explain, no risk, not tax efficient.

Other issues

May be structured as nil cost option or conditional share.

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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