

Share Guide

Share Schemes for Key Employees

EMI share options

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★★★★★</p> <p>No income tax (IT) or National Insurance (NICs) unless disqualified. CGT on sale of shares, potentially at 10%.</p>	<p>★★★★★</p> <p>Corporation tax (CT) deduction on option gains. No NICs.</p>	<p>★★★★★</p> <p>No pre-clearance necessary although option grants must be notified to HMRC.</p>	<p>★★★★★</p> <p>Very simple to explain, no risk, very tax efficient. Limited to £250,000 of shares per person.</p>

Other issues

Limited to smaller companies (assets <£30m and <250 employees) carrying out “qualifying activities”.

Company Share Option Plan (“CSOP”)

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★★★★★</p> <p>No IT or NICs for certain “good leavers”</p>	<p>★★★★★</p> <p>CT deduction on option gains. No NICs if options held for at least three years.</p>	<p>★★★★★</p> <p>Must be registered with HMRC and self-certified.</p>	<p>★★★★★</p> <p>Simple to explain, no risk, tax efficient. Limited to £30,000 of shares per person.</p>

Other issues

Some companies excluded. Options may not be granted at a discount.

Non-tax-advantaged or phantom share options

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★ ★ ★ ★ ★</p> <p>No IT or NICs for certain “good leavers” or if option is held for at least three years. CGT on sale of shares.</p>	<p>★ ★ ★ ★ ★</p> <p>CT deduction on option gains. No NICs if options held for at least three years.</p>	<p>★ ★ ★ ★ ★</p> <p>Must be registered with HMRC and self-certified.</p>	<p>★ ★ ★ ★ ★</p> <p>Simple to explain, no risk, not tax efficient.</p>
<p>Other issues Can be difficult if company sold for shares, earnout, or deferred consideration.</p>			

Growth (or hurdle) shares

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★ ★ ★ ★ ★</p> <p>No IT or NICs if shares purchased for market value. CGT on sale of shares.</p>	<p>★ ★ ★ ★ ★</p> <p>No CT deduction if shares purchased for market value. No NICs on same condition.</p>	<p>★ ★ ★ ★ ★</p> <p>Requires change of Articles to create new class of share.</p>	<p>★ ★ ★ ★ ★</p> <p>Simple to explain, little risk, tax efficient – but its value as a reward will depend on how high the hurdle is set.</p>
<p>Other issues Valuation questions will arise on receipt of growth shares.</p>			

Share purchase

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★ ★ ★ ☆ ☆</p> <p>No IT or NICs if shares purchased for market value. CGT on sale of shares – but shares must be paid for at some point.</p>	<p>★ ★ ☆ ☆ ☆</p> <p>No CT deduction if shares purchased for market value. No NICs on same condition.</p>	<p>★ ★ ★ ★ ★</p> <p>Usually just a subscription letter.</p>	<p>★ ★ ☆ ☆ ☆</p> <p>Simple to explain. There is economic risk, but tax efficient.</p>
<p>Other issues Valuation questions may arise. Liability to pay purchase price may be deferred but never eliminated.</p>			

Restricted shares

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★ ☆ ☆ ☆ ☆</p> <p>ITs and NICs on vesting – but participant and company may elect to pay this upfront. CGT on any further gains between exercise and sale.</p>	<p>★ ★ ★ ☆ ☆</p> <p>CT deduction on vesting. NICs may be transferred to participant.</p>	<p>★ ★ ★ ★ ☆</p> <p>Often operated with an employee trust.</p>	<p>★ ★ ☆ ☆ ☆</p> <p>Simple to explain, no risk, not tax efficient.</p>
<p>Other issues May be structured as nil cost option or conditional share.</p>			

Joint Ownership

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★ ★ ★ ★ ★</p> <p>No IT or NICs if interest purchased for market value. CGT on sale of shares.</p>	<p>★ ★ ★ ★ ★</p> <p>No CT deduction if interest purchased for market value. No NICs on same condition.</p>	<p>★ ★ ★ ★ ★</p> <p>Usually operated with an employee benefit trust. Other documents also required.</p>	<p>★ ★ ★ ★ ★</p> <p>A little more complex to explain than other schemes, little risk, tax efficient.</p>
<p>Other issues There are likely to be valuation questions on the receipt of the interest in the shares.</p>			

Bonus paid by indirectly employee-owned company

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
<p>★ ★ ★ ★ ★</p> <p>Up to £3,600 may be paid to employees free of income tax.</p>	<p>★ ★ ★ ★ ★</p> <p>CT deduction generally available. No NICs exemption.</p>	<p>★ ★ ★ ★ ★</p> <p>Bespoke trust documents usually required.</p>	<p>★ ★ ★ ★ ★</p> <p>CGT benefits available for shareholders selling to employee ownership trusts.</p>
<p>Other issues Benefits must be paid on all employee basis.</p>			

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.