

Incentivising Your Employees Using Share Schemes



Employers often want to use share schemes to give employees shares as a way of incentivising them to work hard and remain with the business for the medium to long term. Some common ways of doing this are as follows.

The EMI Share option is a Government approved, tax beneficial and very flexible way of incentivising Your Staff.

ENTERPRISE MANAGEMENT INCENTIVES (EMIS)

Businesses tend to use EMI if they are eligible because the tax advantages are attractive. Under the EMI scheme, options are issued over an agreed number of shares. No tax is paid when the option is granted. When it is exercised, which means converted into shares, there is no tax to pay provided the agreed exercise price is no lower than the market value of the shares on the day the option was granted.

When the shares are sold, the capital gain is usually taxed at 10% where Business Asset Disposal Relief (previously known as Entrepreneurs Relief) is available.

GROWTH SHARE SCHEMES

Where companies cannot use EMI, a growth share scheme is often used instead. Under this share scheme, on a sale of the company employees benefit from only the growth in the value of the shares going forward, not the historic value built up until the date of share issue. This is achieved by valuing the company and then issuing shares of a different class which only benefits from value above an agreed threshold.

For example, if the company is worth £10m, a growth share may allow the holder to share in the proceeds only if they exceed £12m. As such, the value of the growth share on issue would be very low because it does not have the right to any of the value built up thus far. The income tax charged on acquisition of the share would consequently be very low.



PHANTOM SHARE SCHEMES

A phantom share scheme is essentially a cash bonus scheme. This arrangement allows an individual to receive a cash payment equal to the value of a share or the increase in value of a share above a notional exercise price: no actual shares or share options are issued. The idea is that individuals are incentivised because the level of any payment is linked to the increase in value of the company's shares.



WHY EMI?

While there are a number of choices as set out above, the EMI share option scheme is a Government approved, tax beneficial and very flexible way of incentivising your staff. In a nutshell, EMI is generally the best type of share scheme for employees and the company.

To be eligible to offer an EMI scheme, the company must:

- Be independent (not owned by another company);
- Only have 'qualifying subsidiaries', defined as a company in which the EMI company owns at least 51% of the shares;
- Have gross assets of less than £30m;



- Have fewer than 250 employees;
- Be carrying on a trade which is not on HMRCs list of excluded trades; and
- Have a permanent establishment in the UK.

Individuals wishing to take part must:

- Be employed by the company issuing EMI options or one of its qualifying subsidiaries;
- Work over 25 hours per week for the company, or at least 75% of their working time if less than 25 hours; and
- Not own more than 30% of the shares.

An individual cannot hold options worth more than £250,000 at the date of grant and the total options a company can grant under EMI is £3m.

The options must be registered with HMRC within 92 days of the grant in order for the tax benefits to be available.

When the options are exercised, a tax deduction is also available for the difference between the value of the shares and the amount paid by the employee.

Next Steps



DIXCART UK

If you would like to learn more about EMI Share Schemes, please get in touch.

Our specialist team will take all the hassle away from you; our combined team of tax advisers and lawyers will build an EMI Share Scheme that is tailored to your needs.

Please contact [Paul Webb](mailto:Paul.Webb) on 0333 122 0000 or email hello@dixcartuk.com to arrange a free, no obligation consultation.

1

COMPLIMENTARY MEETING

Find out the choices available to your business

Our professional advisors are offering a complimentary phone call or meeting to help you determine if EMI Share Schemes are right for you and your employees.

2

YOUR CLAIM

One team, one goal. We make it happen.

Our combined tax, legal and accounting professionals will coordinate the entire process and build an EMI Share Scheme that is tailored to you.

2

WE TAKE AWAY THE HASSLE

So you can focus on doing what you do best.

We deal with everything from start to finish, including HMRC advance approval, agreeing the valuation with HMRC, and the drafting of the option agreement.

4

NO RISKS

At Dixcart, we believe it is all about you.

All for an agreed fixed fee.