



Employee Ownership  
Association

The voice of co-owned business

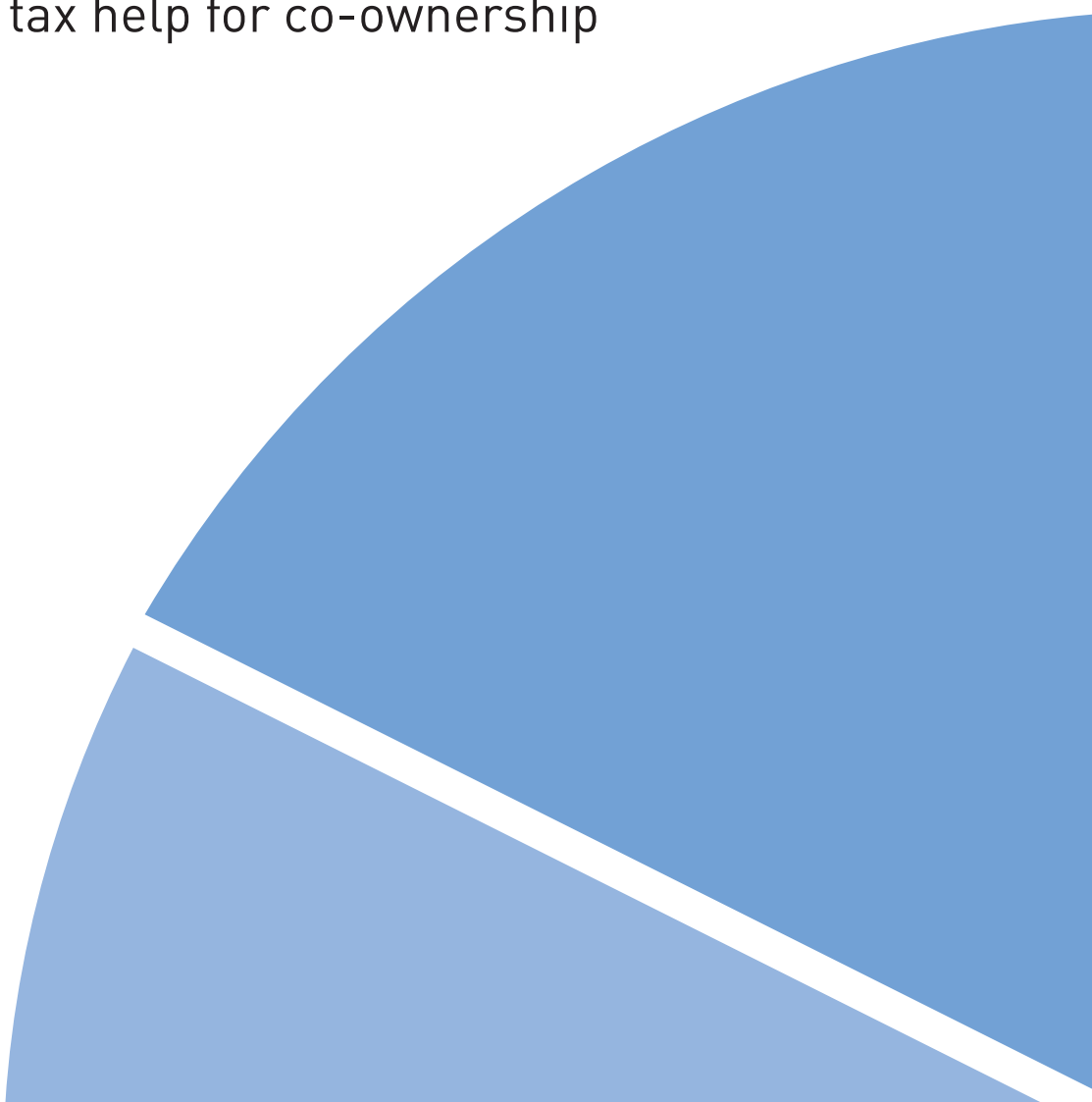


**Robert Postlethwaite**

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## **Structuring employee ownership**

A guide to trusts, shares and  
tax help for co-ownership



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## About the author

Robert Postlethwaite is the founder of POSTLETHWAITE, a specialist legal practice founded in 2003 which helps companies create employee share ownership. He was previously a partner in a major national business law firm and has experience of a wide variety of employee buy-out and share ownership transactions. He is also a regular speaker on employee share participation.

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## Acknowledgements

The Employee Ownership Association is grateful to Graeme Nuttall, Tax Partner, and to Stephen Wright, solicitor – both of Field Fisher Waterhouse LLP – for their expert contribution to this guide. Field Fisher Waterhouse LLP is a full-service European law firm with offices in Brussels, Hamburg, London, Manchester and Paris. The firm has more than 120 partners and over 220 other lawyers.

[www.ffw.com](http://www.ffw.com)

## Publisher

The Employee Ownership Association is the voice of co-owned business in the UK. An association of companies in which employees own anything from a substantial to controlling stake in the business, EOA's members include the John Lewis Partnership; other long-standing co-owned companies such as Scott Bader, Tullis Russell and Arup; other major enterprises such as Unipart, Mott Macdonald, Pertemps and eaga; and a wide range of businesses from a diverse spread of sectors. EOA's purpose is to promote and grow the co-owned business sector and serve its member companies. EOA papers and guides are published by its charitable arm, Employee Ownership Insight.

For more information about EOA go to [www.employeeownership.co.uk](http://www.employeeownership.co.uk)

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# Contents

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Click on any contents to go to that page. Then click anywhere on that page to return to Contents

	Page
<b>Introduction</b> .....	3
<b>A. Employee trusts</b> .....	4
Why trusts? .....	4
Types of trust.....	6
Starting a trust.....	6
Managing a trust.....	7
Trust do's and don'ts.....	8
Examples of trust-only ownership .....	8
Tax and employee trusts.....	9
Advantages of trust-only ownership.....	12
Disadvantages of trust-only ownership.....	12
<b>B. Individual share ownership</b> .....	13
Why shares? .....	13
Types of share schemes.....	14
Starting a share scheme.....	14
Managing share schemes.....	16
Share scheme do's and don'ts.....	18
Examples of shares-only ownership.....	19
Advantages of shares-only ownership .....	19
Disadvantages of shares-only ownership .....	20
Tax and employee shares .....	21
Management share option schemes.....	22
<b>C. Combined trust and share ownership</b> .....	24
Why combine trusts and shares?.....	24
Safeguards .....	25
Examples of combined trust and share ownership.....	25
Types of combined trust and share ownership.....	25
Creating combined trust and share ownership .....	26
Managing combined trust and share ownership.....	26
Tax and combined trust and share ownership.....	26
Do's and don'ts of combined trust and share ownership .....	26
<b>D. Making use of tax advantages</b> .....	27
What tax advantages? .....	27
Tax pitfalls.....	28
Wise use of tax reliefs.....	29
<b>E. Appendices</b> .....	30
Share Incentive Plan .....	30
SAYE.....	31
Company Share Option Plan (CSOP) .....	33
Enterprise Management Incentive (EMI) .....	34

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# Introduction

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This guide is designed to help companies optimise the benefits of co-ownership by selecting the right combination of trust and share ownership, and tax advantages, to suit their business and its needs. The guide is written for companies who are already co-owned, but also for companies considering a transfer to co-owned status.

The co-owned business sector of the UK economy is growing. It already produces combined annual turnover in the region of £25 billion annually. The sector includes major enterprises like John Lewis and Waitrose, Unipart, Mott MacDonald and Arup, Pertemps, PA Consulting, Halcrow and eaga. It includes pioneering employee owned firms like Scott Bader, Tullis Russell and Swann-Morton. The sector includes a wide variety of other companies of all sizes and many different types of business.

Some of these companies are majority or even wholly owned by employees – ie ‘employee owned’ – while some have a minority but still substantial degree of employee stakeholding – ie ‘co-owned’.

All of these companies have faced the challenge of selecting the right ownership structure. Essentially, there are only three ways for a company to be employee owned – it can be owned indirectly through one or more trusts, it can be owned directly through shares individually owned by employees, or it can be owned through a combination of the two approaches.

But as this guide shows, within those three broad ownership types there are many choices to be made, many pros and cons to be weighed up. Those choices can affect how successful the employee ownership model will be for your company.

The Employee Ownership Association is the voice of the co-owned business sector. Our membership includes a majority of the country’s most significant co-owned enterprises. Formed in 1979 the Association has been a prominent campaigner for the benefits of employee ownership, and today represents a genuinely significant sector of the UK economy. An important part of our role is helping companies maximise the value of co-ownership; another aspect is helping companies who want to transfer from a conventional ownership structure to some form of co-ownership.

For this report we commissioned a leading expert on ownership structures – Robert Postlethwaite – to set out the ownership options as clearly and simply as possible, in what is a notoriously technical and jargon-filled field. The guide has also had expert input from the Association’s legal adviser, Graeme Nuttall, tax partner with Field Fisher Waterhouse and head of its Equity Incentives share plans arm.

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## A. Employee trusts

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### Why trusts?

#### ■ A trust is the easiest way to arrange a share purchase

It is often **not practical** for a shareholder to transfer shares to employees directly, particularly in cases where the shares represent a significant holding.

It is a **complex process** to transfer shares to multiple employees – they may not have funds for purchase and may not immediately wish to receive free shares as this generally results in a tax liability.

A **common solution** is for the shares to be first bought into a “warehouse” and subsequently:

- transferred to employees over a longer period;
- held in trust for the long-term benefit of employees; or
- a combination of the above two approaches.

This could be partly achieved by the shares being sold back to the company and re-issued to employees over time. However, this **does not meet the objective** of holding a pool of shares for the long-term benefit of employees without individual ownership.

Further, a buy back of shares by the company is a **bureaucratic and time-consuming** process. A company is only allowed to buy back its own shares if it has shareholder approval under the Companies Act and may also need auditors to confirm its solvency.

A better and simpler solution may be for a company to establish an **employee trust** and fund it to make the purchase. A discrete pool of shares sits in the trust, held under a legal duty to apply the benefit of the shares for employees, either by transfer to employees over time or long-term retention in the trust.

#### ■ A trust fosters more sustainable employee ownership

The more successful a company, the higher its share value, which can mean there are not always sufficient buyers when employees wish to sell shares.

Possible solutions:

- allow the company's **internal share market to determine the price**;
- the company ensures that a **trust has sufficient funds to act as the buyer**– but this depends on the company having sufficient spare funds; or

- ensure that a **minimum percentage of shares is always retained by the trust** and never placed in circulation:
  - Companies with 100% trust ownership solve this market problem 100%, accepting that employees will not share in their company's capital growth.
  - Others adopt a combined approach, allowing some shares to be held by employees directly whilst retaining a minimum percentage in the trust, meaning there is a limit on the number of shares that may require purchasers.

■ **Tax advantages: the Share Incentive Plan (SIP) route**

Only one type of employee trust is treated favourably for tax purposes – a trust that is part of an HM Revenue & Customs (HMRC) approved Share Incentive Plan (SIP) (see appendices). The different parties benefit as follows:

Employees	<ul style="list-style-type: none"> <li>• No income tax or National Insurance (NI) liability on free shares.</li> <li>• Full tax relief for shares purchased.</li> </ul>
SIP trust	<ul style="list-style-type: none"> <li>• Any growth in share value whilst they are held in the trust is free of capital gains tax.</li> </ul>
Company	<ul style="list-style-type: none"> <li>• Its contributions to the trust can be tax deductible, subject to meeting the necessary conditions.</li> </ul>
Shareholders selling to the SIP	<ul style="list-style-type: none"> <li>• They can defer any capital gains tax arising from the sale, subject to meeting the necessary conditions.</li> </ul>

■ **Simple and cost effective to set up**

In its simplest form, establishing a trust can be accomplished in a few days and requires:

- The creation of a **trust deed**. This can take a standard form available from many law firms (although this deed may need tailoring if there are particular requirements for how the trust will operate).
- The formation or purchase of a **shelf company** to act as trustee. The shelf company must have at least one director, although individual trustees are an alternative.
- **Notifying HMRC** of the trust's creation.
- Opening a **bank account** for the trust.

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## Types of trust

### ■ General employees' trust

Shares (and possibly other assets) are **held for employees** and often their dependants and former employees – the beneficiaries.

The trust is discretionary, allowing the trustees wide scope in deciding how benefit should be allocated to beneficiaries, which can include:

- transfer of shares (by sale or gift) to employees; and/or
- retention of the shares in the trust on a long-term basis.

A general employees' trust can be operated from the UK or outside the UK:

- Most trusts in employee-owned companies are **UK-based**.
- Some are situated **outside the UK** with the goal of preventing any capital gains they make being subject to UK capital gains tax. However, the **setting up and administrative costs** of such offshore trusts are normally considerably **higher**.

### ■ Trust used to hold shares under a Share Incentive Plan (SIP)

A SIP-based trust has a more specific purpose of allocating shares to named employees and holding them in their names for a period (normally five years) after which they can be released:

- Employees can benefit from **relief against income tax and NI contributions** by acquiring shares in this way.
- The company also saves employer NI contributions at 12.8% on the value of any shares acquired by employees under a SIP.

## Starting a trust

Seek specialist advice when starting a trust – the extent of advice needed will depend on the kind of trust being created.

Starting a general employees' trust is simple and cost effective (see page 5).

The setting up process is a little more involved for a **SIP** but is not normally difficult:

- HMRC must approve both the Share Incentive Plan (SIP) and the trust created to hold shares allocated to employees.
- It is wise to **allow two to three months** to obtain this HMRC approval.

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## Managing a trust

Trusts must have **one or more trustees**, who have a legal duty to hold the trust's assets for the purposes laid down in the trust's constitution (trust deed).

This normally means the **assets must be held and used for the benefit of the company's employees** in an employee's trust.

Trustees may be:

- Individuals; or
- A single corporate trustee (a limited company), whose director(s) perform the role of trustees.

Taking on the **role of a trustee is a serious responsibility** and it is important to understand the duties it involves.

The **key duty of trustees is to act in the best interests of the beneficiaries**. Precisely what this means will depend on individual circumstances and trustees may have to consider the following over the life of a general employees' trust:

- Whether to transfer shares to beneficiaries.
- How shares are transferred – for example, sale, gift or other means.
- Whether to purchase shares from sellers, and the method of funding this purchase.
- How to vote the trust's shares at shareholder meetings.

Trustees should also **manage their investment with care**, ensuring, for example, that they obtain annual accounts. They may need to attend shareholder meetings and hold directors of the company accountable. The greater the size of the trust's holding, the stricter the duty to manage investments.

The trust should **prepare annual accounts** and it is likely that it will need to file an annual tax return with HMRC.



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## Trust do's and don'ts

### ■ Must do's

Think very carefully about the **trust's intended long-term role**. For example, if the trust is to retain a minimum percentage of shares, this may need to be recorded in the trust deed. An off-the-shelf trust deed may not be appropriate in these circumstances.

Consider the **trust's potential tax position** – but also ensure that any tax planning is fully balanced against achieving all the other objectives of trust creation:

- If the trust is likely to incur significant capital gains it may currently be possible to avoid capital gains tax by **appointing non-UK trustees**.
- However, this will **make the trust considerably more expensive** to run and involves appointing professional trustees who may not easily understand any broader non-financial objectives of trust ownership in the company.

Ensure that the **trustees understand their role** and arrange training if necessary.

Ensure that **trust record keeping and administration is robust**, including the maintenance of accounts and tax returns.

### ■ Don'ts

Don't appoint the trustees only from the board of directors if this will create conflicts of interest. The trust may have an important role in ensuring that the company's board is accountable to the company's owners. Serious conflicts of interest will arise if the trustees of the employees' trust and the company directors are the same people.

Consider appointing trustees from the following groups:

- Employees (perhaps by a ballot of employees).
- Independent individuals with experience of business management and strong character.
- Non-executive directors.
- An executive director.
- These last two categories of trustee should comprise a minority of the total trustee board.

## Examples of trust-only ownership

- Arup Group – [www.arup.com](http://www.arup.com)
- John Lewis Partnership – [www.johnlewispartnership.co.uk](http://www.johnlewispartnership.co.uk)
- Make – [www.makearchitects.com](http://www.makearchitects.com)
- OPM – [www.opm.co.uk](http://www.opm.co.uk)

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## Tax and employee trusts

Taxation issues are complex and the following is intended only as an introduction.

### ■ Income tax

Dividends:

- Dividends paid on annual trust income in excess of £1,000 will be subject to dividend income tax at an effective rate of 25% (2008–09 rates).
- The dividend is paid with a 10% tax credit (so is deemed to have been paid after deduction of 10% tax), then income tax at 32.5% (the “rate applicable to trusts” for dividends) is charged on the grossed up amount:

Dividend amount	£10,000
Grossed up dividend	£11,111
Deduct tax at 32.5%	- £3,611
Net dividend received by trust	£7,500
Effective tax rate	25%

There is potential for an element of **double taxation** if the trust subsequently pays part of its dividend to employees, so that it is unusual for dividends to be paid first to a trust then to employees.

An alternative approach involves the trust waiving any dividend rights, and the company instead paying a (taxable) bonus directly to employees.

Other income:

- If annual trust income exceeds £1,000, other income will be subject to income tax at 40% (2008–09 rates).
- However, trust management expenses can be deducted from trust income in calculating income tax liability.

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## ■ Capital gains tax

A UK-based employee trust holding company shares permanently will not normally incur any liabilities for capital gains tax (CGT).

The exceptions are:

- The employee trust disposes of other assets.
  - An employee trust disposing of shares or other assets subject to CGT will be liable for CGT on its gains at 18%.
  - An annual exemption may reduce the amount of CGT payable.
- The employee trust changes its ownership strategy and a decision is made to dispose of shares.
  - A transfer of shares to employees may give rise to CGT.
  - The trustees will normally be treated as making a disposal for a payment equal to the shares' value, so CGT is, in principle, due even where the trust gifts shares to employees, for example, if the shares have grown in value since they were acquired.
  - In practice, HMRC does not require CGT to be paid in these circumstances if the employee is paying income tax on the value of the shares received, as this would otherwise result in a form of double taxation (Extra Statutory Concession D35).

There is also a special CGT exemption for SIP trusts.

Trusts that are located outside the UK may currently be outside the scope of CGT. However, the trust that must be operated in conjunction with a SIP requires UK resident trustees.

## ■ Inheritance tax

A properly drafted employees' trust that holds shares permanently will not normally be subject to inheritance tax (IHT).

Payments **made by a company to an employees' trust** will not normally be treated as transfers of value subject to IHT.

- However, IHT might be payable if the company is a "close company" (under the control of five or fewer shareholders) and the trust allows persons holding 5% or more of the shares to be beneficiaries.
- Check the trust deed – employees' trusts often depend on the company for funding, making it important to ensure that the trust is drafted to avoid the above situation arising.

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Payments or share transfers made by the trust to employees will not normally result in an IHT liability.

- However, a transfer to a person who is already at least a 5% shareholder may result in an IHT liability where the company concerned is a close company.
- Again, this point should also be covered in the drafting of the trust deed.

### ■ Stamp duty

Stamp duty should not arise where the **employees' trust holds shares permanently**, as it is only the transfer of shares that is subject to stamp duty.

No stamp duty is payable when **free shares are transferred by a trust to employees**.

The reverse of each transfer form should be signed confirming that any sum paid for the transfer of shares is less than £1,000.

Shares will need to be **transferred from the old to the new trustees** if there is a change of trustees (not including a change in the directors of a corporate trustee) and this transfer is exempt from stamp duty.

Stamp duty is payable at the rate of £5 for each £1,000 (or part of £1,000) of value per share transfer in cases where employees pay for shares – for example, the stamp duty will be £15 if an employee pays £2,500 for shares.

### ■ Value Added Tax (VAT)

An employees' trust **will not be able to recover VAT** on any goods or services it buys as it is unlikely to be permitted to register for VAT.

### ■ Corporation tax

- **Employees' trusts:** A company donating money to an employees' trust it has established will be unable to claim a corporation tax deduction in respect of that gift unless and to the extent that the trust uses that money to benefit employees directly (whether by transferring free shares, shares with a discounted purchase price or paying cash).
- **SIP trusts:** Company donations to a SIP trust will automatically give rise to a corporation tax deduction, so long as the SIP trust acquires at least a 10% shareholding and passes those shares to employees within ten years (and distributes at least 30% of them within five years).

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A close company (one controlled by five or fewer shareholders) lending money to an employees' trust will be required to pay HMRC an amount equal to 25% of the amount paid:

- The company can reclaim this amount following repayment of the loan by the trust.
- This is an anti-avoidance provision aimed at preventing shareholders extracting profits by long-term loan without paying dividend income tax, but can cause difficulties in financing an employees' trust.
- This issue can be avoided if a bank provides the loan, even if the loan is secured against the company's assets.

## Advantages of trust-only ownership

- No shares are held by individual employees: there is no buying and selling of shares, and therefore **no pressure on the company to provide a financial underpin** to ensure that sellers are always able to sell.
- Trust-only ownership can help create a **stronger focus on the long term**: the company's employees are able to share in its success, free of pressures to sell the company to enable shareholders to realise their investment.
- Employees can still be rewarded for success: for example, by **bonus payments** or other performance-related rewards.
- Many trust-only owned companies are outstandingly successful and **attribute their success in large part to the way they are owned**.

## Disadvantages of trust-only ownership

- There are no personal shareholdings, with **no scope for tax-efficient performance-based reward** through HMRC-approved employee share plans.
- Employees are **not able to make capital gains**.
- It is not currently possible for a company to fund an employees' trust to buy its own shares out of pre-tax profits if the shares are not then distributed to employees.

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## B. Individual share ownership

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### Why shares?

#### ■ Sense of ownership

Owning a personal stake in the company may make the ownership stake feel more real than having the company owned by a trust on behalf of employees.

#### ■ Tax incentives for employees

- The UK government has long recognised the value of employees owning a personal stake in the organisation they work for through its encouragement of individual share ownership – principally through **tax incentives** but also by permitting a **relaxed regulatory environment**.
- There are currently **four types of share scheme** in the UK that carry Government-approved tax advantages for employees.
- Over **four million UK employees** currently participate in one or more share ownership schemes.
- Share schemes are an **extremely tax efficient** way of rewarding employees and are attractive to employers because the value of the reward is directly linked to the success of the company.

#### ■ Tax incentives for companies

Since 2003, UK companies have been able to claim the value of most kinds of share-based reward received by employees as a corporation-tax deductible expense.

#### ■ Familiarity

- **Employees are familiar** with employee share ownership – many have already participated in a share scheme or have family or friends who have done so.
- This means that companies considering creating an employee share scheme often find their **proposals received enthusiastically** – so long as they design a share scheme which is right for their business and explain to employees how it works.
- The UK also has plenty of **expert advisers** in this field – it should be straightforward to find the right person to help.

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## Types of share scheme

UK employees typically become direct shareholders in their company through one of the following routes:

### ■ Buying shares

Employees purchasing shares in the company they work for can obtain relief against income tax and National Insurance – the share purchase is financed from their pre-tax income under the Share Incentive Plan (SIP) (see appendices).

### ■ Being given shares

- Awards of free shares can be very attractive for employees as a way of acquiring a capital stake **without risking personal savings**.
- Free shares can be awarded **tax free through a Share Incentive Plan (SIP)**.
- In the absence of a SIP, employees receiving free shares will **normally expect to pay income tax** (and possibly also NI contributions) on the shares' value.
- The value of any free shares awarded to employees will normally be shown as a deductible expense for corporation tax purposes.

### ■ Share options

Share options are not just a useful incentive for executives and directors – they are also extremely popular in creating wider employee share ownership, notably through Save As You Earn (SAYE) options which also provide tax benefits for participating employees (see appendices).

## Starting a share scheme

The following summarises the main steps for creating a SIP and SAYE option plan. It is intended as a guide only – seek specialist advice.

<b>Creating a SIP</b>	<b>Creating an SAYE option plan</b>
<p>Decide whether you want to offer:</p> <ul style="list-style-type: none"> <li>• free shares; and/or</li> <li>• shares purchased by employees (partnership shares); and</li> <li>• if you offer partnership shares, whether you also want to offer free matching shares.</li> </ul> <p>You should consider whether employees have sufficient spare salary/wages to buy shares themselves.</p> <p>You should also consider the impact on the company's cash and profits of financing free or matching shares. Awards of free shares can be made conditional on company or divisional performance.</p>	<p>Decide on the option exercise price.</p> <p>Identify a bank or building society which is willing to provide a savings accounts.</p>
<p>How will employees be allowed to sell their shares:</p> <ul style="list-style-type: none"> <li>• Should your Articles of Association be changed to require sellers to offer their shares internally?</li> <li>• Will there be sufficient buyers in the future to match sellers, or might the company have to part-fund the market?</li> </ul>	<p>How will employees be allowed to sell their shares:</p> <ul style="list-style-type: none"> <li>• Should your Articles of Association be changed to require sellers to offer their shares internally?</li> <li>• Will there be sufficient buyers in the future to match sellers, or might the company have to part-fund the market?</li> </ul>
<p>Draft a set of SIP rules and a SIP trust deed using an adviser with expertise in this field.</p>	<p>Draft a set of SAYE rules using an adviser with expertise in this field.</p>
<p>Submit these to HMRC for informal, followed by formal, approval.</p>	<p>Submit these to HMRC for informal, followed by formal, approval.</p>
<p>Consider whether record keeping under the SIP should be performed in-house or contracted out (this may depend on how many employees participate).</p>	<p>Consider whether record keeping under the SAYE plan should be performed in-house or contracted out (this may depend on how many employees participate) The savings provider may be willing to do this but is likely to charge.</p>
<p>Make any necessary changes to the company's Articles of Association to include rules for the share transfer market.</p>	<p>Make any necessary changes to the company's Articles of Association to include rules for the share transfer market.</p>
<p>Agree share market value with HMRC.</p>	<p>Agree share market value with HMRC.</p>
<p>Invite employees to acquire shares, then allocate shares to those wishing to participate</p>	<p>Invite employees to enter into savings contracts and accept option grants, then allocate shares to those wishing to participate.</p>



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## Managing share schemes

### ■ Share Incentive Plan (SIP)

A SIP is likely to be the first choice in cases where employees are to acquire shares directly.

For example, an employees' trust that has acquired, or is in the process of acquiring, a majority shareholding, may feed shares through to a separate SIP trust for allocation and ultimate transfer to employees.

Alternatively, a SIP trust can be the body that acquires a majority holding of shares from current shareholders:

- These shareholders are able to claim deferral of capital gains tax by selling to a SIP (subject to various conditions).
- Once shares are acquired, the SIP trust can allocate and transfer them to employees as described above.
- Once allocated to employees, shares must normally be retained for five years before they can be released tax-free.

During the five-year period during which the SIP retains shares, some employees participating in the scheme will leave employment, at which point various conditions and considerations apply:

- Employees may not be permitted income tax and National Insurance relief on their SIP shares, depending on the reason for leaving employment.
- The scheme rules may require participants leaving employment in the first three years to forfeit free or matching shares, unless they leave for limited "good reasons".
- It is important that the company has a good administration system. Ensuring up-to-date records of the status of all participants are maintained will help to apply the right tax treatment, forfeit certain leavers' free or matching shares if appropriate and otherwise operate the SIP in the manner intended.
- If the company wishes to ensure that SIP participants who are no longer employees do not continue as shareholders, it is important to ensure that Articles of Association contains provisions requiring them to offer their shares for sale internally.

Consider the timing of share allocation carefully. A separate five-year period must be completed for each allocation of shares under a SIP to secure favourable income tax and NI treatment. For example, twelve new five-year periods will begin in each year if the company allocates monthly shares to employees, making for a considerable administrative task.

Allocate time and resources for the administration of the SIP, or appoint an independent administrator to carry out the task.

File an annual return for the SIP with HMRC.

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## ■ SAYE options

SAYE options will generally be more straightforward to administer than a SIP.

It is essential to keep accurate records of participants who leave employment:

- Any participant who leaves due to death, injury, disability, redundancy or contractual retirement before the date when repayment under the savings contract is due may exercise a number of options linked to the amount they have saved.
- A participant who leaves in the first three years of the granting of the option for any other reason may not exercise the option.
- A participant who leaves for any other reason after three years may exercise their option if the option rules allow and linked to the amount they have saved.

Allocate time and resources to cover SAYE administration, or appoint the bank or building society providing the savings facility, or an independent administrator, to carry out the task.

Key points on SAYE options:

- They are linked to a special savings account providing income tax-free interest.
- It is possible to set the exercise price at a discount of up to 20% below market value at the date of option grant, and this discount is included in the income tax-free zone.
- All employees who have completed a certain period of employment with the company must be eligible to participate.
- Articles of Association must contain provisions requiring departing employees to offer their shares for sale internally if the company wishes to ensure that SAYE optionholders who leave and are allowed to exercise their options do not continue as shareholders in the company.
- Annual returns of the company's SAYE option scheme must be filed with HMRC.

## ■ Internal share markets

A strong sense of ownership among employees must be created if employee share ownership is to make a difference.

Each company will need to work out the approach that works best for them, but a starting point is invariably regular financial reporting to employees. This provides a foundation for their understanding of what drives profitability and how this can lead to capital growth and profit sharing through dividends or other arrangements.

The next biggest recurring task is likely to be ensuring that there is an effective market in the company's shares. Over time, employee shareholders will wish to realise some of the value locked up in their shares.

In designing a share scheme, it is essential to give thought to how the internal market will work.

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At its simplest, this may involve writing into your company's Articles of Association that:

- Any employees wishing to sell must inform the company and authorise it to offer the shares for sale internally.
- The sale price will be a market value set by the directors or an external party.
- The employees' trust is the purchaser of employees' shares.

The highly complex task of matching multiple employee sellers with multiple employee buyers can be avoided by making a trust the purchaser.

Shares to be sold go into the trust, which acts as a clearing house, and are then available for purchase by, or as gifts to, employees wishing to acquire further shares at convenient times.

Variations on this theme include:

- **Using a SIP:** The purchasing trust could be a Share Incentive Plan (SIP) – when the shares are transferred back to employees they can benefit from income tax and NIC relief. Using a SIP in the internal share market may also:
  - Enable employees who sell shares to defer any CGT.
  - Enable the company to fund the purchase of employees' shares by corporation tax deductible contribution to the SIP, subject to meeting the necessary conditions.
- **Using supply and demand:** Instead of the share price being independently determined, it could simply be determined by supply and demand between employees.

## Share scheme do's and don'ts

### ■ Do's

Think about creating ways for employees to become shareholders that will **suit the maximum number of employees**. Some staff may appreciate the opportunity to purchase shares with income tax relief under a SIP, but others may not have sufficient spare money to do this, in which case free shares may be a better option.

**Plan how any market in your company's shares will work.** If the market will be partly reliant on funding from the company (to an employees' trust), ensure that sufficient cash is reserved during long-term budgeting.

Consider the potential benefits of **leaving a proportion of shares in an employees' trust** long term. This can reduce the percentage of shares in circulation and mitigate potential pressure to find buyers from individual shareholders.

Make it a top priority to **communicate regularly** with your employee shareholders about company performance.

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Ensure that any **special incentives for directors and senior management are independently approved**. Consider creating a remuneration committee, the majority or all of whose members are non-executive directors and whose remit includes approving all management incentives. Also consider involving shareholder representatives in senior personnel remuneration decisions.

#### ■ Don'ts

**Don't try to hide bad news.** Employee shareholders have the same rights as any other shareholder, so if company performance is poor this should be acknowledged and steps identified for improvement.

**Don't make the ownership arrangements too complex.** The simpler the arrangements, the more easily employee shareholders will understand them. Much of the benefit of employee share ownership is lost if staff don't understand the ownership structure. Keep things simple and create an accessible, plain English guide to how employee share ownership works in the company.

**Don't let tax incentives drive your employee ownership structure** if they cannot deliver the right practical result.

## Examples of shares-only ownership

A number of companies have created high levels of employee ownership exclusively through employee share ownership, for example:

- Golder Associates – [www.golder.co.uk](http://www.golder.co.uk)
- PA Consulting – [www.paconsulting.com](http://www.paconsulting.com)

## Advantages of shares-only ownership

- Direct share ownership by employees can be the most **straightforward and powerful** way of creating a feeling of company ownership among employees.
- Research evidence identifies **strong positive connections between direct employee share ownership and company performance**, but only in cases where the company is managed in a style that maximises the potential incentive effects.
- Direct share ownership **allows employees to share in capital growth** if the company enjoys business success in ways that increase its value.
- Costs to the company of financing employee share ownership may be **set off against corporation tax** in certain circumstances. For example, it is normally possible to claim the cost of providing free shares to employees as a corporation tax deduction.

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## Disadvantages of shares-only ownership

Most employee shareholders will eventually wish to sell some or all of their shares, particularly if the company has been successful and shares have grown in value. The number of buyers may not always match the number of sellers, and pressure can build up on the company to provide a financial underpin to ensure that sellers are always able to receive the full market value for their shares.

If the company is particularly successful, share value may grow to a level that:

- Makes shares hard to afford for new employee shareholders; and
- The share value is beyond the company's ability to fund share purchases to match demand from sellers.

This can result in pressure from shareholders for a sale of the whole company.

One solution to this problem is to ensure that a proportion of shares always remain in trust:

- A permanent trust shareholding is a stable shareholder, representing a long-term commitment to employee ownership.
- A sale of the company to a third party is less likely if an employees' trust is a significant shareholder, as the trustees will be required to consider a variety of factors before agreeing to sell their shares to a third party.
- The trust deed can also be written in a way that ensures a long-term shareholding by a trust.

An employees' trust may be needed to ensure the smooth operation of an internal market in a company that is committed to shares-only ownership.

Employees may incur income tax and NI contributions on share acquisition in situations where shares-only ownership is the objective. It will be necessary to establish a tax-advantaged share scheme (SIP/SAYE, or Enterprise Management Incentive or approved options for special senior management) to reduce or eliminate these taxes, unless the only way in which employees acquire shares is by paying full market value.

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## Tax and employee shares

### ■ Employee tax: the basic principle

The basic principle under UK taxation is that any financial benefit enjoyed by an employee through the acquisition of shares in the company they work for is subject to income tax and National Insurance contributions if the shares are easily convertible into cash.

Subject to some important exceptions referred to below, this means that an employee:

- Will be subject to income tax on the value of any free shares.
- Will pay income tax on the value of any discounted shares.
- Will pay income tax on the gain arising when exercising an option at a price that is less than the value of the shares at the time of purchase.
- Will pay income tax on any growth in share value that results from a restriction being removed from the holding, for example, the requirement to forfeit the shares if the employee leaves the company.
- Will have the amount of any deferred payment for shares acquired treated as a loan and will pay income tax each year on an amount equal to the official rate of interest which would otherwise have been payable on the amount of the loan until it is repaid, unless subject to interest at HMRC official rate.
- In each of the above, National Insurance contributions (both employee and employer) may also be due.
- Will pay capital gains tax on any growth in the value of shares if these are subsequently sold.

### ■ Exceptions

Share Incentive Plans (SIPs):

- Free shares can be awarded without income tax or NI contributions.
- Employees may purchase shares (partnership shares) out of wages or salary with full income tax relief.
- Additional free shares (matching shares) may be awarded to match partnership shares purchased. These matching shares are also free of income tax or NI contributions. Providing employees with free matching shares, linked to purchased partnership shares, allows purchase at a discounted price.
- Growth in the value of shares is free of CGT while the shares are retained in the SIP by the employees.

Save As You Earn (SAYE) options:

- Option gains are free of income tax and NI contributions, although CGT on gains will be due when the shares are sold (see appendices).

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Enterprise Management Incentives (EMI) and approved options (normally used only as special incentives for directors and senior management):

- Option gains are free of income tax and NI.
- As with SAYE options, CGT on gains will be due when the shares are sold. From 6 April 2008 CGT has been payable at a flat rate of 18%.

### ■ Company's tax position

In most cases, a UK company may claim a corporation tax deduction in respect of:

- Employees' option gains.
- The value of free shares gifted to employees.
- Any discount on shares purchased by employees.

A number of conditions need to be satisfied for this relief to be claimed successfully, but it will normally be available so long as the shares acquired are not shares in a company that is a subsidiary of another company (unless the company or its holding company has a stock exchange listing)

## Management share option schemes

### ■ Why share options?

Some employee-owned companies feel it is important for directors and other members of the senior management team to be eligible for special share-based incentives, providing an extra layer of reward for very strong management performance.

Share options (other than SAYE options) are the most common form for such incentives.

### ■ Main incentive schemes

Enterprise Management Incentive (EMI) options (see appendices):

- Provide significant tax benefits for participants, as option gains are not subject to income tax or NICs. The only tax paid by the participant is CGT when shares are sold, from 6 April 2008 CGT has been payable at a flat rate of 18%.
- EMI options are only available in smaller companies with gross assets not exceeding £30 million, no more than 250 full time equivalent employees and certain trades are excluded.
- EMI options may not be granted over shares in a company that is controlled by another.

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Approved options/Company Share Option Plan (CSOP) (see appendices):

- Similar to EMI options, but are not limited to smaller companies and no trades are excluded.
- As with EMI options, approved options may not normally be granted over shares in a company that is controlled by another company (although this rule is relaxed if either company is fully listed).
- Not as flexible as EMI options and normally at least three years must pass before approved options may be exercised.

Unapproved or non-approved options:

- Enjoy no tax incentives, so option holder must pay income tax and NI contributions on option gains.
- The company will also be liable for employer NI contributions, although the option holder can be required to pay these as a condition of being granted the option.
- Unapproved options are normally granted where:
- EMI and approved options are not available; or
- EMI or approved options are available but the maximum limits have been exceeded for a given individual.



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## C. Combined trust and share ownership

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### Why combine trusts and shares?

Combined trust and individual share ownership is possible. Initially, employees may hold no shares directly and all employee ownership is through the employees' trust. Over time, the trust may transfer shares to individual employees, but always retaining a minimum percentage of shares in long-term trust ownership.

For some companies this represents the best of both worlds:

<b>Advantages of trust ownership</b>	<b>Advantages of individual share ownership</b>
<b>Sustainability:</b> by ensuring that a minimum number of shares are always held in the trust.	<b>Direct and easily understood ownership:</b> by enabling employees to acquire shares from the trust.
<b>Stability:</b> by placing a strategic block of shares in the hands of trustees who must take the long-term view.	<b>Capital growth:</b> by enabling employees to sell shares back to the trust.
<b>Facilitating the operation of an internal market and the purchase of shares from current shareholders by:</b> <ul style="list-style-type: none"><li>• Channelling shares to a single purchaser (the trust) rather than seeking to match multiple sellers to multiple buyers.</li><li>• Limiting the number of shares in circulation</li></ul>	<b>Corporation tax deduction for the company:</b> by using a statutory deduction for the value of share-based benefit provided to employees.
<b>Enabling shareholders to defer CGT:</b> by creating a SIP trust which acquires at least a 10% holding and subject to satisfying the necessary conditions.	<b>Employee tax incentives are available.</b>

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## Safeguards

Combining trust and direct employee share ownership does not entirely eliminate the disadvantages inherent in each structure:

- The company may still need to provide a **financial underpin** for any internal share market, although this need should be mitigated by limiting the number of shares in circulation. This may be a reasonable trade off against the advantages of direct individual share ownership.
- A company that allows employees to hold shares directly may have to accept that this makes the company **more vulnerable to a takeover**. However, enshrining in the trust deed and the company's constitution a requirement that the trust retains a minimum holding may make a takeover harder to achieve.
- It may be necessary to operate a tax-advantaged share scheme (such as a SIP or SAYE option scheme) with direct employee share ownership, involving **additional set up costs and ongoing administration duties**. However, this may be a fair trade off against the ability to reward employees with tax efficient share ownership.

## Examples of combined trust and share ownership

- eaga – [www.eaga.com](http://www.eaga.com)
- Mott MacDonald – [www.mottmac.com](http://www.mottmac.com)
- Tullis Russell – [www.tullis-russell.co.uk](http://www.tullis-russell.co.uk)

## Types of combined trust and share ownership

There may be additional shareholders involved in employee owned companies that adopt the combined trust and share route:

- Founder shareholders
- Directors and senior management
- External investors
- A charity
- Other shareholders

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## Creating combined trust and share ownership

### ■ Stage One: establish the trust which then acquires shares

- Create the trust (see simple and cost effective on page 5).
- Arrange finance for the trust to acquire shares from the current shareholders.
- Complete the share purchase by the trust.

### ■ Stage Two: the trust transfers some of its shares to employees (involve the trustees)

- Decide how shares are to be transferred to employees (for example, by purchase, gift, or option grant).
- Consider whether a tax-advantaged share scheme will be suitable for providing the required share benefits to employees.
- Establish a tax-advantaged share scheme for transferring shares to employees if appropriate (see starting a share scheme on page 14).
- Establish a special share-based incentive scheme for directors and/or senior management team members if appropriate.
- Review the company's Articles of Association and change them to provide for the operation of an internal market if necessary.
- Plan allocations of shares to employees and future cashflow demands on the company if it is to financially support an internal market,
- Explain clearly to employees how share ownership works in the company and what they must do to take up their allocation of shares.

## Managing combined trust and share ownership

See managing a trust (page 7) and managing share schemes (page 16) .

## Tax and combined trust and share ownership

See tax and employee trusts (page 9) and tax and employee shares (page 21).

## Do's and don'ts of combined trust and share ownership

See trust do's and don'ts (page 8) and share scheme do's and don'ts (page 18).

## D. Making use of tax advantages

### What tax advantages?

Employees acquiring shares	Employees' trust
<p>Shares acquired through a SIP:</p> <ul style="list-style-type: none"> <li>• Purchase shares with income tax relief.</li> <li>• Be given free or matching shares tax-free.</li> <li>• Growth in share value is free from CGT.</li> </ul> <p>SAYE options granted:</p> <ul style="list-style-type: none"> <li>• Option gains are free of income tax and NI contributions (but still subject to CGT on sale of shares).</li> <li>• Savings interest is free of income tax.</li> </ul>	<p>Tax relief is limited.</p> <p>SIP-based trust:</p> <ul style="list-style-type: none"> <li>• Growth in share value is free of CGT.</li> </ul> <p>Other UK employees' trusts:</p> <ul style="list-style-type: none"> <li>• Growth in share value is free of CGT if shares are given to employees and are thereby subject to income tax.</li> </ul> <p>For employees' trusts situated outside the UK:</p> <ul style="list-style-type: none"> <li>• It may be possible for growth in share value to be sheltered from CGT.</li> </ul>
<p><b>The company</b></p> <p>Corporation tax deduction for:</p> <ul style="list-style-type: none"> <li>• Value of shares and share-based reward to employees.</li> <li>• Donations to employees' trust if trust transfers shares or cash to employees.</li> <li>• Donations to SIP holding at least 10% of company shares (conditional on SIP allocating at least 30% of shares to employees within five years and all shares within ten years).</li> </ul> <p>If shares are awarded to employees under a SIP:</p> <ul style="list-style-type: none"> <li>• The company is not required to pay 12.8% employer NI contributions on the value of the shares awarded.</li> </ul>	<p><b>Sellers of shares (including employees)</b></p> <p>CGT on shares sold to a SIP can be deferred indefinitely if:</p> <ul style="list-style-type: none"> <li>• The SIP holds at least 10% of shares in the company; and</li> <li>• The seller's sale proceeds are re-invested in other investments.</li> </ul>
<p><b>Special incentives for directors and senior managers</b></p> <p>If EMI or approved, or CSOP, options granted:</p> <ul style="list-style-type: none"> <li>• Option gains are free of income tax and NI contributions.</li> <li>• Growth in the value is still subject to CGT on sale of shares at a flat rate of 18%.</li> <li>• These can be extended to employees more widely.</li> </ul>	

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## Tax pitfalls

Tax relief is not available if certain conditions are not met:

### ■ For employees:

- Shares have been allocated under a SIP but the employee does not stay with the company for at least five years. Relief on income tax and NI contributions will be reclaimed by HM Revenue and Customs unless the employee leaves for “good reasons” (death, injury or disability, redundancy, disposal of subsidiary, TUPE transfer or normal age retirement – but ensure this is not age discriminatory).
- Shares have been allocated under a SIP but the company is sold within five years. In this situation, income tax and NI contributions will become payable to HM Revenue and Customs.

### ■ For sellers of shares:

A person selling to a SIP and aiming to claim deferral of CGT is reliant on the SIP acquiring at least a 10% holding, which may not be within that seller’s control.

### ■ For a company contributing to a SIP:

A company will only be able to secure a corporation tax deduction for contributions to a SIP:

- If the SIP acquires at least a 10% holding in the company; and
- If it distributes shares acquired using that contribution within a maximum of ten years (and at least 30% of them within five years).

Neither of these conditions is within the company’s direct control.

### ■ For directors and senior managers:

EMI status can be withdrawn between the grant and exercise of options – for example, if the company’s business changes fundamentally.

EMI option gains from this point will no longer be sheltered from income tax and NI contributions.

Gains up to the withdrawal of EMI status will remain subject to CGT when the option is exercised and the resulting shares sold, at a flat rate of 18%.

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## Wise use of tax reliefs

Available tax incentives can make employee ownership attractive for:

- **Existing shareholders** wishing to realise the value they have built up in their shares, by enabling deferral of CGT through sale to a SIP.
- **Employees**, who can acquire a highly tax efficient stake in their company.
- **The company**, which can claim as a tax deductible cost any share-based benefit provided to employees and contributions to a SIP.
- **Directors and senior managers**, who can participate in highly tax efficient share-based incentives.

However, it is essential to ensure that employee ownership arrangements are not designed purely around these tax benefits.

The foundation must be an ownership structure which:

- Works commercially and practically.
- Is understood by employees.
- Is supported by directors and senior management.

Using tax incentives to build on this foundation may enhance employee ownership. However, employee ownership arrangements should not be built around the available tax incentives.

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## E. Appendices

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### Share Incentive Plan

Under the Share Incentive Plan (SIP), employees can obtain shares in three main ways:

- **Purchase** – employees may buy Partnership Shares out of their gross pay, with full income tax relief. For example, an employee investing £1000 of their pre-tax pay in shares in their employer company won't have income tax or National Insurance deducted, so they'll have shares worth £1,000 allocated to them. If instead they simply took that £1,000 as part of their normal pay, they'd receive a cash amount after deduction of tax and National Insurance.
- **Free** – employees may be allocated Free Shares, without having to pay income tax or National Insurance on the shares' value.
- **Matching** – employees may be allocated up to two Matching Shares free for every one Partnership Share they agree to buy – again without being required to pay income tax or National Insurance on their value.

Also, dividends paid on any of these shares can be paid as additional shares (Dividend shares) instead of as cash, in which case they won't be subject to income tax.

#### When and how are the shares allocated?

- **Partnership Shares:** can be allocated just once, once a year, or every month. Alternatively, employees can have Partnership Share money deducted from their pay once a month for up to twelve months (an Accumulation Period). This money is then used to buy Partnership Shares at the lower of share value at the beginning and end of that period. This transfers the risk of downward share price movement over that period from employees to the company.
- **Free Shares:** can be allocated whenever the company wishes, so long as within the annual limits (see below).
- **Matching Shares:** will be allocated at the same time as the Partnership Shares to which they relate. They must always be purchased by a SIP trust – using each employee's money if they are Partnership Shares or the company's money if they are Free Shares or Matching Shares – then immediately allocated to the names of participating employees.

#### Are there any conditions?

- It's an all employee plan, so everyone must be invited to participate, although the company can require employees to have worked for at least (broadly) eighteen months.
- Any shares allocated to employees must be held on their behalf in a special SIP trust – normally for five years to ensure the income tax reliefs.

There are several other conditions, including strict rules as to the type of shares that may be used, and a rule preventing a SIP being used to allocate shares in a subsidiary.

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## Benefits for the company

In addition to the intended benefits for the company's performance:

- The company doesn't have to pay employer's National Insurance contributions on any pay used by employees to buy Partnership Shares so long as they are then left in trust for the full five years – saving the company up to £128 for every £1,000 invested by employees.
- The cost to the company of providing Free Shares or Matching Shares is deductible against corporation tax.
- Any award of Free Shares may be linked to achievement of performance conditions, which can be company-wide or linked to a particular business unit.
- Free Shares or Matching Shares can be forfeited if employees leave as "bad leavers" (dismissal or voluntary resignation) within three years.

## Annual financial limits

*Partnership Shares* – £1,500 or 10% of salary (whichever is lower).

*Free Shares* – £3,000.

*Matching Shares* – up to twice the number of Partnership Shares.

*Dividend Shares* – £1,500.

## SAYE

SAYE options allow UK employees to participate in share options without having to pay income tax or National Insurance (NI) contributions on their option gains.

### How do they work?

Imagine that:

- A company wishes to offer each of its employees a share option. This allows them, after a fixed period of time, to buy a fixed number of shares at today's share price (£1.25 per share) or at a discount of up to 20% on that price (£1 per share). The company decides to grant the option with a £1 so-called "exercise" price.
- Each employee will only be granted the option if they agree to save a fixed amount per month for a minimum of three years, so that the total of their savings and interest will provide enough money for them to exercise their option.
- For example – an employee decides to save £100 per month for three years. After three years, this will give them £3,600 plus a tax-free interest bonus of say £190 (the bonus rate is set by HM Treasury), totalling £3,790. The employee is granted an option to buy 3,790 shares.
- Three years later the share price has increased to £2.50. The employee uses those savings to exercise their option in full, paying £3,790 for shares that are now worth £9,475, so making a gain of £5,685. Normally that employee would have to pay income tax and



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possibly NI contributions on this £5,685 benefit (even though it may only be a paper gain if they haven't yet sold the shares). However, because the option is granted under an HM Revenue & Customs-approved SAYE scheme, the employee doesn't have to do so.

### **So is it completely tax-free?**

No, if the employee we've just described sells the shares – which they might do either immediately or after some time – they'll then have to pay capital gains tax (CGT) on any gain made up to the point of sale. But it will often be much better to pay CGT than income tax or NI contributions, because:

- There is an additional tax-free slice – £9,600 for 2008-2009.
- CGT is payable at a flat rate of 18%.
- Unlike income tax or NI, CGT is due only when someone sells their shares, and so when they have some cash to pay the tax bill.

### **What happens if an employee does not want to exercise their option?**

There is no obligation to exercise the option that has been granted to them, and it would be unusual to do so where a share price had fallen below the option exercise price. If the option isn't exercised, the employee may simply keep the savings and bonus.

### **Can a company choose which employees get SAYE options?**

No, SAYE is an all-employee plan, so it must invite all employees to participate, or all employees who have worked for the Company for a specified minimum period (which can be set at up to five years).

### **Are there any limits?**

The maximum monthly savings allowed per employee is £250. The savings period can be either three or five years. The option period can be the same as the savings period, or if a five-year savings period is chosen the option period can be extended to seven years. In all cases, the option can be exercised within six months of the end of the option period.

### **What happens to leavers?**

Any employee who leaves due to redundancy, injury, disability or retirement must be allowed to exercise a proportion of their options – linked to the amount saved so far and any accrued interest. Any option gains are not subject to income tax or National Insurance.

### **Benefits for the company**

Apart from the potential business benefits of a carefully designed SAYE plan – like employee motivation, creating a sense of ownership and commitment – there is also a tax advantage for the company. Any gains enjoyed by employees can be treated as an expense of the employer company for corporation tax purposes.

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## Company Share Option Plan (CSOP)

The Company Share Option Plan (CSOP) allows UK employees to participate in share options without having to pay income tax or National Insurance (NI) on their option gains.

### How does it work?

Imagine that:

- Your company grants an employee an option, under which – after three years – they can buy 10,000 shares at today's share price of £3 per share.
- Three years later the share price has increased to £5. The person decides to exercise their option in full, paying £30,000 for shares that are now worth £50,000.

Normally, an individual would have to pay income tax and possibly NI on the £20,000 gain (even though it may only be a paper gain if they haven't yet sold the shares). However, if the option is a CSOP, they won't have to pay tax and possibly NI contributions, so long as (normally) at least three years and no more than ten years pass before they exercise the option.

### So is it completely tax-free?

No, if the staff member sells the shares – which they might do either immediately or after some time – they will then have to pay capital gains tax (CGT) on any gain they've made up to the point of sale.

But it will often be much better to pay CGT than income tax or NI because:

- There is an additional tax-free slice – £9,600 for 2008-2009.
- CGT is payable at a flat rate of 18%.
- Unlike income tax or NI, CGT is due only when the employee sells the shares, and so when the employee has some cash to pay their tax bill.

### Are there any limits?

No employee may be granted CSOP options over shares worth more than £30,000. So in our example the individual could not immediately be granted any more options.

### What happens to leavers?

Normally, if CSOP options are exercised within three years of grant, the employee will pay income tax and possibly NI contributions on their option gains. However, this does not apply to employees leaving for redundancy, injury, disability or retirement.

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### **Do all employees have to be offered CSOP options?**

Unlike the SIP and SAYE options, CSOP options do not have to be offered to all employees, allowing the company to select employees to participate.

### **Benefits for the company**

As with SAYE options, apart from the potential business benefits of a carefully designed plan, any gains enjoyed by employees can be treated as an expense of the employer company for corporation tax purposes.

## **Enterprise Management Incentive (EMI)**

The Enterprise Management Incentive (EMI) is a share option plan targeted at smaller companies. It is widely considered to be the most tax efficient share plan available in the UK. Like SAYE and Company Share Option Plans, an EMI is a share option plan.

### **Companies who qualify**

- EMI is for smaller companies only – with gross assets of no more than £30 million and fewer than 250 employees.
- Companies running certain businesses are excluded.
- The company must be independent – it must not be a subsidiary of, or controlled by another company (a similar rule also applies to SAYE and CSOP).
- The company must operate wholly or mainly in the UK.

### **Do employees qualify?**

Any employee who is to participate must work for the company for at least 25 hours a week, or if less, for at least 75% of their working time. Anyone holding 30% or more of your company's ordinary shares is not eligible.

### **Are there any limits?**

- Options may not be granted over shares with a total market value of more than £3 million (measured at the time each option is granted).
- There is a limit of £120,000 for each employee.

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## **Tax treatment**

Assuming the option exercise price doesn't exceed the market value of the shares at the time of option grant:

- There is no income tax or National Insurance payable on the difference between the values of the shares upon exercise – so if the exercise price is set at market value on the date of grant, no income tax or National Insurance liability arises.
- If the option exercise price is less than market value on the date of grant, income tax (and possibly National Insurance) will be payable on exercise, on the difference between the exercise price and market value on date of grant.
- When shares acquired through exercise of EMI options are eventually sold, capital gains tax (CGT) will be due on option gains (the difference between exercise price and sale price).

## **What could affect the tax treatment?**

If certain things happen between option grant and exercise so that the options cease to qualify under EMI, income tax can become payable on gains up to the date of exercise.

The main disqualifying events are:

- The company becoming controlled by another company.
- The company's trade no longer qualifies.
- The option holder ceases to work for the company or for sufficient hours a week.
- EMI options are granted over more than £120,000 value of shares.

## **What happens to leavers?**

Option holders who leave can be allowed to exercise their options without tax penalty.

## **Do all employees have to be offered the EMI?**

Like Company Share Option Plan options, EMI options don't have to be offered to all employees – allowing the Company to select which employees participate.

## **Benefits for the company**

As with SAYE and CSOP options, apart from the potential business benefits of a carefully designed plan, any gains enjoyed by employees can be treated as an expense of the employer company for corporation tax purposes.