DMH Stallard

Corporate Commentary

Welcome to this monthly series for business owners, where myself and my team aim to demystify the corporate market and highlight trends in a non-technical manner.

For a further discussion on any of these topics, please contact me on:

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Employee share schemes
These provide and allow key employees to have an equity interest in your business, without the risk of creating minority shareholder rights, or recovering shares if the employee leaves.

Employees often qualify for shares immediately before a sale of the company (but with all the tax benefits of being a long-term shareholder).

A cheaper alternative?
Clients often like the idea of simply making a gift to loyal employees after a sale ("don't worry I will look after you").

This will create a tax problem (avoided by approved options), because the Revenue will regard the payment as derived from the employment relationship, denying capital treatment.

Enterprise Management Incentive (or EMI)
Designed for smaller, high growth companies, these have been very popular, with options often granted on an "exit only" basis, exercisable when an exit (sale of the company) occurs.

Employees avoid paying income tax and national insurance contributions on the gain in value between the date the options were granted, and the date the options are exercised (up to 10 years). The option period also counts to qualify the employee to business asset disposal relief on the sale proceeds, which reduces the rate of capital gains tax to just 10%.

Beware!
EMI rules are complicated, and schemes will fail if paperwork and submission to HMRC has not been done correctly. If an error is discovered just before sale, the aim of motivating key employees can be defeated.

Other Share Schemes

Company Share Option Plans (CSOPs): Similar to EMI, these allow for the grant of options over shares, which can be exercised at a future date, without some of the limitations of EMI.

Share Incentive Plans (SIPs): Popular with larger companies, which do not qualify for EMI or CSOP's, allowing employees to buy shares in their employer through deductions from their pre-tax salary. The shares are then held in trust for a specified period.

Conclusion

Implemented correctly, employee share schemes can be a powerful tool in encouraging employee engagement and business success. Planning early and taking proper advice really will save money in the long run.

If you would like to discuss putting an employee share scheme in place, please contact Jonathan Grant by email to jonathan.grant@dmhstallard.com.

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