

COMPANY SHARE AND OPTION SCHEMES – WHAT ARE THE ALTERNATIVES?

There is quite a choice of company share schemes, and several have legislated tax benefits because the Government likes to encourage employee share ownership.

When choosing the right scheme for your company, start by asking yourself what the principal aims are for setting up a scheme. You can always set up more than one scheme if you want different levels of incentive for some employees, such as your ‘key’ managers. See Step 1 for some of the initial questions to consider. Step 2 shows what schemes can be used under the various eligibilities.

STEP 1

Initial questions	
Shares or options upfront?	1. Do you want employees to have shares immediately or to be granted options to buy shares?
For all staff or just a few?	2. Will the shares or options be for all employees or just aimed at certain key individuals?
Are you an SME with under 250 people?	3. Is the company independent (i.e. not a subsidiary) with fewer than 250 employees?
Are any of the shares or options for non-employees?	4. Some schemes are not available if the beneficiary is not an employee – e.g. are they a non-exec director, consultant or even another company?

STEP 2

Based on the above criteria, you can select the schemes that may be suitable in the table below. *Hint - if the company has fewer than 250 people and is independent, then we can state that an **EMI option scheme** will normally be the most beneficial plan overall for both the employees and the company.*

Scheme (see guide in next table)	Shares upfront	Options upfront	Must be offered to all staff	Selected staff can participate	Company must be independent	Must be fewer than 250 employees	Tax advantaged by legislation?	Can be used for non-employees	Flexibility *lower ***higher	Complexity and cost £ lower £££ higher
EMI	✓	✓		✓	✓	✓	✓		***	£
CSOP		✓		✓	✓	✓	✓		**	££
SIP	✓		✓		✓		✓		**	££
SAYE		✓	✓				✓		**	££
JSOP	✓							✓	**	£££
'Growth shares'	✓							✓	**	££
Unapproved plan	✓	✓						✓	***	£
ESS	✗			✗			✗		**	£££
EOT			✓		✓		✓		*	£££

The table below translates the scheme abbreviations and summarises the main benefits and disadvantages of each.

Scheme	Full name	Summary
EMI	Enterprise Management Incentive scheme	<input checked="" type="checkbox"/> flexible vesting structure, no income tax or NI, profit on sale of shares only taxed at 10% CGT, no minimum vesting period, £250k limit on share value <input checked="" type="checkbox"/> not for larger companies > 250 staff, some business sectors are ineligible, some HMRC reporting
CSOP	Company Share Ownership Plan	<input checked="" type="checkbox"/> usually no income tax or NI, profit on sale of shares taxed under CGT, could be used if not EMI eligible <input checked="" type="checkbox"/> minimum 3 year vesting period, £30k limit on share value, some HMRC reporting, CGT paid is at normal rates of 18%/28%
SIP	Share Incentive Plan	<input checked="" type="checkbox"/> usually no income tax, NI, or CGT <input checked="" type="checkbox"/> some businesses are ineligible, low limit on share value, some HMRC reporting, potential risk because employees are buying shares
SAYE	Save As You Earn	<input checked="" type="checkbox"/> company can sell discounted shares under option, usually no income tax or NI, profit on sale of shares taxed under CGT <input checked="" type="checkbox"/> some businesses are ineligible, minimum 3 years saving period to get tax benefits, low limit on share value
JSOP	Joint Share Ownership Plan	<input checked="" type="checkbox"/> usually no income tax or NI, profit on sale of shares taxed under CGT, flexible <input checked="" type="checkbox"/> not tax advantaged under legislation, needs an employee trust set up
'Growth shares'	Growth Shares	<input checked="" type="checkbox"/> usually no income tax or NI, profit on sale of shares taxed under CGT, flexible, can give options or shares <input checked="" type="checkbox"/> potential risk in buying shares but tends to be low, requires a new share class
Unapproved plan	'Unapproved' or non-tax-advantaged options	<input checked="" type="checkbox"/> very flexible <input checked="" type="checkbox"/> no specific tax advantages
ESS	Employee Shareholder Status ('shares for rights') CLOSED TO NEW SCHEMES FROM 1 DEC 2016	<input checked="" type="checkbox"/> no income tax or NI on first £2k of value, no tax on profit on sale of shares originally worth up to £50k <input checked="" type="checkbox"/> employees have to give up some employment rights, potential risk because employees are buying shares
EOT	Employee Ownership Trust	<input checked="" type="checkbox"/> A trust holds the shares on behalf of all employees, having purchased them from the previous owner; the latter pays no CGT on disposal <input checked="" type="checkbox"/> needs an employee trust set up, shares not obtained by employees personally

STEP 3

Please contact us for further details on any of the schemes that may look of interest.

If you believe that an EMI scheme is the most appropriate there is a lot of detailed information available on our website, including videos.

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