

Creating the right employee share scheme for your company

There is a common misconception that share schemes are suitable only for large, quoted companies.

In fact, both large and small entities are well suited to reward their employees via share schemes, particularly companies that are growing and looking forward to potential transactions that could realise value, such as flotation or a share sale. Successful schemes can be traced to increased company profits and better sale prospects.

Share schemes can stimulate individual performance because they create a relationship between the efforts of the employee and the value of their shares and share ownership can provide an employee with an interest in the long-term capital appreciation of the company's shares. Share schemes can also encourage retention and loyalty of employees and quite often help recruitment.

There are different types of tax-efficient schemes and each one has a degree of flexibility to be structured to meet your requirements. What kind of share scheme you create is likely to depend on whether you want to reward your key employees or all your employees.

Share Schemes for your key people

There are two share schemes which give income tax relief for selected UK taxpaying employees. Both of these are share option schemes:

- The Company Share Ownership Plan (CSOP)
- Enterprise Management Incentives (EMI): aimed at smaller companies (£30 million gross assets or less), with certain businesses excluded. Tax reliefs under an EMI are the best of any UK share scheme, and perhaps the best in Europe.

However, there are other key employee share schemes if neither of these schemes are the right option.

Share schemes for all your employees

There are two all-employee share schemes which give income tax relief for UK taxpaying employees:

- Save As You Earn (SAYE) share options
- Share Incentive Plan (SIP): which gives your employee different ways in which they may acquire shares.

However, there are other all-employee share schemes if neither of these schemes are the right option.

Before introducing employee share schemes, employers must consider a range of different legal and practical issues.

In order to set up a successful employee share scheme it is vital to decide the company's objectives at the outset. When you are considering your options you have to think of the

company's goals and you also have to consider the needs of the employees you are hoping to retain. Once you have identified your objectives, you have to decide which of the many share schemes will best help you achieve them.

Once you have a clear idea of what you want your scheme to achieve you can seek the necessary advice. Advice from specialist accountants and lawyers proves invaluable in choosing and establishing the right share scheme for you.

As each scheme offers different tax treatment and as the taxation of these schemes can become quite complicated, as can the process of getting HM Revenue and Customs approval, it is a good idea to talk to your tax advisor about the tax and national insurance implications of different employee share schemes before seeking advice from your legal advisor on putting a scheme in place.

It is also good practice to advise all employees eligible for the scheme to get independent advice before they sign up.

If you would like to find out more about the different types of share schemes available to your company please contact a member of the corporate team who will be happy to help you.

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