

Share ownership for employees - EMI

Employment Tax Factsheet | www.rousepartners.co.uk/factsheets



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456 Pellentesque, Alquiset
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987-654-321

No.	Description	Quantity	Am.
1234	Id rutrum	2	246
2567	Sed interdum odio	5	855.7
0034	Pellentesque	8	594.67
0460	Mecenas molestie	3	492.74
4729	Integer varius nisi	4	356.40
4930	Quisque luctus turpis	7	400.00
4893		3	456.00

Comment
Sed interdum odio, per faucibus imperdiet
Nam ipsum ipsum, sed per ipsum luctus varius
Quisque luctus varius nisi, nulla elit.

	Subtotal	Tax Rate	Tax	Other
	4500.45	8.78%	740.87	-
TOTAL Due				5241.32

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An overview of the latest changes and developments.

Share Ownership for Employees - EMI

Retaining and motivating staff are key issues for many employers. Research has shown a clear link between employee share ownership and increased productivity. The government has therefore introduced two routes for employers to obtain shares in their employer company without suffering a large tax bill.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

EMI allows selected employees (often key to the employer) to be given the opportunity to acquire shares in their employer through the issue of options. Whilst an EMI can offer significant tax advantages, the key driver for any incentive arrangement should be commercial. This factsheet outlines the EMI rules.

Tax consequences of acquiring employment related shares

If shares are given to an employee, they will suffer employment taxes on the market value of the shares at the date of acquisition. If the shares are valuable, this can be expensive.

What does EMI offer?

EMI allows options to be granted to employees in a tax efficient manner.

Typically, options are exercised immediately prior to a sale of the company so the employee can benefit from the sale proceeds. However, subject to the terms of the option agreement, it may be possible to obtain the shares before selling them.

What are the tax benefits to employees?

There is no tax payable on grant of the option.

If the options are granted below market value, there is income tax and an NIC payable based on the difference between the price paid and the market value of the option at the date of grant when they are exercised.

When sold a chargeable gain arises based on the sale proceeds less the value paid for the option.

The CGT liability will depend on the availability of any reliefs and annual exemption.

- ▶ The gain is liable to CGT at 10% where net total taxable gains and income are below the income tax basic rate band, otherwise the rate is 20%
- ▶ Entrepreneurs' Relief is available to reduce the CGT rate to 10% providing the option has been held for at least 24 months

What are the tax benefits to employers?

To retain and motivate employees to grow the company as they participate in the sale proceeds.

Options can be cheaper than paying annual bonuses.

A corporation tax deduction is available on exercise providing certain conditions are met.

EMI: Points to consider

There are a number of issues to consider in deciding whether EMI is suitable for your company.

- ▶ Does the company qualify?
- ▶ Which employees are eligible and who should be issued options?
- ▶ What type of shares will be issued?
- ▶ When will the rights to exercise options arise?
- ▶ The costs of setting up the option.

Does the company qualify?

EMI was introduced by the Government to help small higher risk companies recruit and retain employees with the skills that will help them grow and succeed. The company must therefore:

- ▶ exist wholly for the purpose of carrying on one or more 'qualifying trades'
- ▶ have gross assets of no more than £30 million
- ▶ employ fewer than 250 employees
- ▶ not be under the control of another company (so if there is a group of companies, the employee must be given an option over shares in the holding company).

A qualifying trade cannot consist wholly or mainly of excluded activities, such as:

- ▶ property development
- ▶ operating or managing hotels
- ▶ farming or market gardening.

Which employees are eligible and who should be issued options?

Selected employees are granted options over shares in the company providing they satisfy the following conditions:

- ▶ An employee cannot be granted options if they control more than 30% of the ordinary share capital of the company.
- ▶ They must spend at least 25 hours a week working for the company or the group, or if the working hours are shorter, at least 75% of their total working time must be spent as an employee of the company or group.
- ▶ The total market value of unexercised options cannot exceed £250,000.

When will the rights to exercise options arise?

The options must be capable of being exercised within ten years of the date of grant but there does not have to be a fixed date.

Examples of circumstances in which the options could be exercised include:

- ▶ Sale of the company
- ▶ Takeover of the company
- ▶ Company float
- ▶ Fixed period
- ▶ When profitability or performance targets are met

Options generally lapse if certain events arise, for example the employee leaves employment.

How we can help

There are a variety of alternative arrangements which can be used each with their own conditions and advantages. We can help you decide whether EMI is appropriate for your business and whether the business will qualify. Please contact us for advice on the best options for your business.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

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