



UNDERSTANDING
**KEY STAFF
INCENTIVES**

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KEY STAFF INCENTIVES

SHARE OPTION SCHEMES

Company Owners - Lock in key members of your staff using tax-advantaged share option schemes.

Does the company employ one or more key members of staff whom you particularly need to retain and motivate? Whether you are working towards an exit or you simply need to maintain profitability, there are often one or more senior employees which a successful business must keep on board.

A tax-advantaged share option scheme can be a commercially effective, tax-efficient, and low cost method of achieving this important objective. Our favourite, for eligible trading companies, is the **Enterprise Management Incentives (EMI) Scheme**:

EMI is a share option scheme which is ideal for key members of staff of a privately-owned company because it is designed for individuals employed by small and medium enterprises. The scheme is flexible, allowing, for example, performance criteria to be included, or not, as the employer wishes.

The scheme can be used to get shares to an employee;

- early (to help the employee get access to dividend income and thereby avoid national insurance on payments which might otherwise be bonuses); or
- in the medium term, with performance criteria, (perhaps to give the employee particular incentive to work hard up to a desired medium term exit); or
- immediately before a sale to a third party (to lock the employee in for the duration).

At Jackson Stephen LLP we have implemented EMI schemes for our clients on a range of different bases to suit their particular objectives and needs. We particularly like the third of the three illustrations noted above, ie. a scheme which crystallises upon an ultimate sale.

The tax advantages associated with EMI are various, but include in particular:

- i) A formal mechanism for agreeing the value of option shares with HMRC in advance (so as to give certainty over the employee's ultimate tax position);
- ii) An approved method of getting capital value into the hands of the employee, free of income tax and national insurance, and ultimately subject to capital gains tax in the employee's hands when they sell (which can be as low as 10% in many cases);
- iii) A corporation tax deduction in the employing company for the opportunity loss associated with issuing option shares at a price which is ultimately well below a market value for those shares, at the time of exercise.

If EMI is not available to your company (either because the company does not qualify as a trading company, or it is involved in the list of excluded activities, or it is too large) then there are other tax-advantaged schemes and government initiatives which can still be used to achieve these key objectives, albeit with certain features and restrictions which need to be managed.

Contact us for more innovative tax solution booklets:

- Company Structures
- Inheritance Tax
- Private Residences
- Profit Extraction
- Succession Planning
- Unincorporated Businesses
- Trusts
- Funding Educational Costs



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