

Spinout to Exit: Employee Share Incentives



Maximise your potential

At James Cowper Kreston, we understand that attracting and retaining talent is essential for business success. Employee share incentives are an excellent way to incentivise employees and encourage loyalty and commitment. Providing equity to key team members can also help them to focus on business growth and align their commercial objectives with those of other shareholders.

There are certain tax-efficient share incentives designed especially to encourage companies to allocate equity to employees. A number of these are share option plans.

For example, the share option plan of choice for many smaller private companies is the Enterprise Management Incentive (EMI) Option Scheme. It is popular because it is flexible – allowing the plan to be tailored to the company and the workforce, which can be an efficient way to reward employees, where employer salary costs are increasing. CGT is payable upon disposal of the shares and business asset disposal relief should also be available to mitigate the CGT rate.

Following a recent relaxation in the rules Company Share Option Plans (CSOPs) also offer a popular alternative, especially if EMI is not possible.

If share options are not the right fit, then other share awards can be considered. Tax rules can make a straight-forward allocation of shares to employees difficult if the shares are illiquid but there are other ways forward to be considered. For example:



Share Incentive Plan (SIP) a government approved initiative that allows an employer to award shares to employees and also for employees to purchase shares in their employer in a tax-efficient manner.



Creating an internal market for shares such as creating an Employee Benefit Trust, (EBT).



Introducing a Growth Share Plan.

Alternatively, it is possible for a controlling interest in a company to be sold to an Employee Ownership Trust (EOT). EOTs allow all employees to have an indirect stake in the company that they work for and – because government wish to encourage employee ownership they offer tax breaks for both the employees and the sellers.



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