

ENTERPRISE MANAGEMENT INCENTIVE

How can Blue Peak help?

We have a wealth of experience assisting companies with the design, implementation and operation of EMIs and other share incentives. We team with businesses to ensure they are implementing an arrangement that fits with their strategy and culture.

With backgrounds in the Big-4, our share incentive experience ranges across a wide portfolio of companies, from owner managed businesses through to UK PLCs and large multi-national overseas entities.

Contact us to discuss whether an EMI plan may be right for your business.



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EMIs are a tax efficient way for small businesses to attract, incentivise and retain key talent

WHAT IS AN ENTERPRISE MANAGEMENT INCENTIVE ("EMI") ARRANGEMENT?

EMIs are designed to help smaller companies recruit and retain key employees who have the skills to help them grow and thrive. They are a way of rewarding employees through share options for investing their time and skills to help the company achieve its potential – especially at a time when the company may not be cash-rich.

Provided certain conditions are met, EMIs deliver tax savings to both the employee and the company. Generally, shares received through an EMI are subject to the Capital Gains Tax (CGT) regime rather than income tax and National Insurance Contributions ("NIC").

Some companies put these arrangements in place for a future event (such as sale of the business or listing on the stock exchange) so that employees are rewarded at these milestones.

Plans can be designed in a flexible way so that business owners can keep control of when employees receive value, for example by adding in performance and time conditions which must be satisfied for the employees to receive the benefits of the plan.

KEY BENEFITS

- ✓ Potential employee tax rate as low as 10%*
- ✓ No employer's NIC (saving of 13.8%)*
- ✓ Corporation tax deductible
- ✓ Flexibility to allow you to motivate and retain key employees

*assuming certain conditions are met

WHO CAN OFFER AN EMI?

EMI options can be granted by independent trading companies with gross assets not exceeding £30 million, who meet the qualifying criteria (this is based on factors such as number of employees, trade the business carries out and ownership structure). We can provide additional information on these criteria and help you to understand whether your business meets the qualifying conditions.



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Although the EMI arrangement is attractive, there can be pitfalls in the implementation or operation of the plan that could lead to higher tax being due. It can also cause issues in the future, for example on the sale of the business. We therefore work through this with you to ensure you have a plan that meets the legislative requirements, at the same time as delivering value to your business.

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HOW DOES AN EMI WORK?

The employing company can grant employees share options up to the value of £250,000 per person in any three-year period, based on the share value at grant. There is no approval process or clearance mechanism for EMI, but companies (as well as the plan documents) do need to meet certain criteria.

Companies need to register the share plan with HMRC, as well as notify HMRC within 92 days of all EMI option grants. In addition, there is an annual reporting requirement, all of which we can provide support with.

Grant

This is where you notify the employee that they have been given this award. It is the right for them to buy shares in the company at a future date at a specific value (this is often the market value of the shares on the date of grant but can be lower). There is no income tax or NIC payable at grant of the option.

Exercise

This is the point at which individuals exercise their right to buy the shares. The company can determine when the exercise is allowed (for example, it may be based on performance or time measures, or at an event such as sale of the business). There will normally be no income tax or NIC when the options are exercised (provided the shares are purchased by the employee for at least the market value of the shares at grant). If the employee was given a discount on the market value, they will have to pay income tax and NIC on the difference between what they pay and what the shares were worth at the date of grant. Employer's NIC will also be due on this amount.

Sale

When an individual sells their shares, they will be subject to Capital Gains Tax on any increase in value from the date of grant. If the individual has any Capital Gains Tax allowance remaining for the year, this could reduce their tax due. The shares may also qualify for entrepreneurs' relief, which means gains would be charged at a rate of 10%.

Contact us if you would like to set up a free discussion to look at how an EMI (or other arrangement) may help attract, incentivise and retain your key talent.