

## Enterprise Management Incentives

### What are Enterprise Management Incentives?

Enterprise Management Incentives (EMIs) are tax advantaged share options, introduced by the government to help small, higher risk companies to attract, retain and motivate key employees.

Broadly, EMIs give employees the option to acquire shares in the company at a **fixed price**, free from the income tax and National Insurance Contributions (NICs) that would usually apply. This, in turn, enables employees to participate in the **future growth** of the company.

The employer has full **discretion** as to which employees are granted options, as well as the **conditions** which apply to determine when an individual is able to exercise their option and acquire shares. For example, exercise criteria may include turnover or profit targets.

### Tax benefits

#### Employee

- **No income tax or NICs** on grant
- **No income tax or NICs** on exercise (provided that the agreed exercise price is equal to, or greater than, the market value of the shares at the date of grant)
- **Entrepreneurs' relief** on sale of EMI shares (provided that the options were granted at least 12 months prior to sale; there is no minimum shareholding requirement)

#### Company

- **No NICs** on grant
- **Corporation tax deduction** on exercise, by reference to the market value of the shares less the amount paid for them (i.e. the exercise price)

#### Qualifying conditions

In order for employees to benefit from EMI share options, the company, the employees and the options themselves must meet certain **qualifying conditions** (some of which must be met throughout the life of the options granted).

These conditions include:

- The company must not be under the control of another company
- **Gross assets** must not exceed £30m
- There must not be more than **250** full time employees
- The company must carry on a **qualifying trade**
- The employee must work at least **25 hours** per week for the company
- The employee must not control more than **30%** of the ordinary share capital
- The **shares** under option must be fully paid up, irredeemable, ordinary shares

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## How can we help?

Ryecroft Glenton has extensive experience in establishing EMI schemes and is able to help with the following:

- **Valuing** the shares to be put under option and agreeing this value with HMRC
- **Advising** on whether an EMI share option scheme is appropriate for your business
- **Advising** on the **terms** of the EMI share option contract (e.g. exercise criteria)
- **Registering** the EMI share option scheme and notifying HMRC of the options

## Case Study

Alice has been a full-time employee of ABC Ltd for several years. On 1 June 2012, she is granted EMI options over 1,000 shares in ABC Ltd, with an exercise price of £10 per share (equal to the market value at the date of grant). The options are exercisable in the event of a change of control or sale.

On 1 November 2014, ABC Ltd is acquired by XYZ Plc. Alice exercises her option, acquiring 1,000 shares in ABC Ltd for a total of £10,000. She immediately sells her shares on to XYZ Plc for a purchase price of £25 per share.

Alice's CGT liability for 2014/15 is as follows:

	£
Sale proceeds	25,000
Less: base cost	<u>(10,000)</u>
Gain	15,000
Less: annual CGT exemption	<u>(11,000)</u>
<b>Chargeable gain</b>	<b>4,000</b>

CGT @ 10% (entrepreneurs' relief rate) = £400

Alice's net receipt in respect of her EMI shares is £14,600 (i.e. £25,000 proceeds less £10,000 base cost less £400 CGT).

Please don't hesitate to contact us should you wish to discuss any of the above in detail.

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