

# Recruiting and retaining employees with Enterprise Management Incentives

# An Incentive Plan to deliver your reward strategy

## What is it?

Enterprise management incentive (EMI) options offer quoted and unquoted small and medium-sized enterprises (SMEs) incentive plans to recruit and retain the individuals you need to help your businesses grow and succeed.

EMI options have become the most popular form of tax-advantaged share incentive arrangement operated by SMEs for UK employees.

## Helping you make tax savings

EMI options provide generous tax advantages. The main advantage is that the growth in value of the shares (the difference between the market value of the shares at grant and at exercise) is not taxed on exercise. Instead the growth in value of the shares is taxed as a capital gain when they are sold. Only any discount at grant (i.e. if the exercise price is less than the market value at grant) is subject to income tax at exercise.

If the sale of the shares is more than two years after the EMI option is granted, the gain will normally be taxed at the beneficial entrepreneurs' relief rate of 10%.

Otherwise, the CGT rate is 10% for basic rate taxpayers and 20% for higher rate taxpayers.

For both employee and employer, EMI gains will be National Insurance contributions (NIC) free when they are not subject to income tax.

The table below shows a comparison between EMI Options and paying a cash bonus.

	EMI	Non EMI option / cash bonus
Market value of shares on grant	£10,000	£10,000
Value of shares when options are exercised and shares sold / Bonus paid	£150,000	£150,000
Employee Tax paid (CGT/income tax and employee NI)*	£14,000	£65,800
Employer NI	£0	£19,320
<b>Net amount received by employee</b>	<b>£126,000</b>	<b>£74,200</b>

\*assumes employee has already used up CGT annual allowance

## Could you benefit

Your company should qualify if you pass four main tests at the date of grant of an EMI option:

- You have gross assets of £30m or less.
- You're an independent business with a presence in the UK (or for a group, having at least one group entity present in the UK).
- You're carrying on a qualifying trade.
- You have fewer than 250 full-time employees.

Most trades will qualify, but there are some exclusions. These include certain types of financial activities (e.g. banks and insurance companies), businesses where a significant part of the value arises from real estate and some professional services.

## Are there any limits?

There are two limits that apply in relation to the value of the shares that can be granted under option.

Firstly there is a limit of £250,000 on the value of the shares over which an employee can hold an EMI option, with a supplementary limit which provides that if an employee has been granted EMI options cumulatively over £250,000 (even if exercised or lapsed) there must be a three year gap between EMI option grants to that individual.

Secondly, the total value of the company's unexercised EMI options must not exceed £3m.

These limits are calculated at the grant date of the relevant option and are not recalculated for any changes in the share value during the life of the option.

### **How to set up an EMI scheme**

We have developed a tech enabled EMI delivery process making the establishment of an EMI scheme quick, easy and efficient while still ensuring that you get the strategic advice you need to ensure your scheme is tailored to your needs.

Our streamlined tech enabled EMI offering process consists of:

- ❖ Step 1: a one on one virtual meeting with a PwC professional to discuss what you are looking for from the scheme, who will participate, and the main terms of the scheme
- ❖ Step 2: a 30 minute online questionnaire (including all of the information we need to create the documentation)
- ❖ Step 3: production of the full suite of EMI documentation using our tech enabled tool
- ❖ Step 4: a one on one virtual meeting with your PwC Professional to talk you through the EMI documentation
- ❖ Step 5: sign the documentation with your employees and upload it to our shared portal

### **How to get in touch**

For more information, please fill in our short [online form](#) and we will be in touch for an initial discussion.

