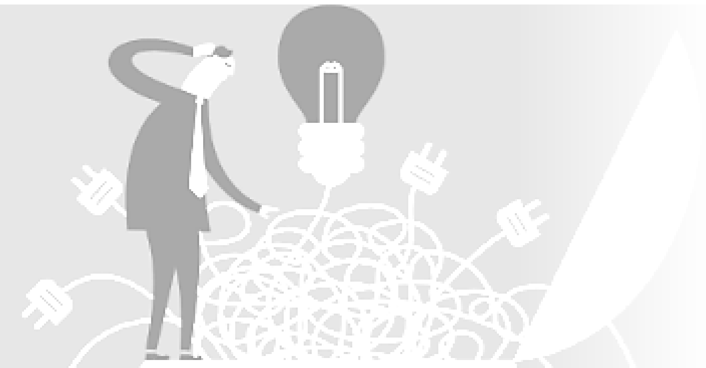

# Share Schemes: Back To Basics

With the Budget having just been announced, we felt it was a good time to go back to basics, and explore the fundamental benefits, potential pitfalls, and overall reasoning behind establishing an employee share scheme.

## What is a Share Scheme?

A share scheme is a way to offer equity-related rewards to employees. By awarding employees with a share of the company, they develop a strong sense of ownership and become truly engaged with the organisation's commercial objectives. This, in turn, helps to align their interests with existing shareholders, encourages growth, and maximises share value.

There are a myriad of different share plans available, and it is usually possible to find a scheme that best matches the needs of your business. The variety of plans also helps ensure employees are rewarded appropriately for their contribution, in any context.

## Why Do People Choose to Use Share Awards

- **Employee Retention**: For many companies, having fully trained and motivated employees plays a pivotal role in their continued success. By implementing a share plan, it is possible to focus employees' attention on long term goals, and to reduce staff turnover amongst key personnel. Maintaining a skilled and motivated team often leads to **sustainable growth**.

- **Reward**: Share plans offer a **longer-term approach** when compared to traditional cash bonuses**,** and are often significantly more **tax efficient**. They can help organisations **manage cash flow** by providing an incentive without the demand of constant financial outlays.

  Ultimately, different types of rewards will appeal to different people. It is important that you understand your employees in order to gauge what kind will work most effectively.

- **Incentivise**: Enhanced employee engagement helps to create a **shared vision of the future**. By making employees 'owners', they often start thinking differently about the business. Their **interests become aligned with shareholders** as they are further inspired to increase share value.

- **Attract:** A share plan demonstrates you are keen to **engage with and involve** employees. This can really help to set you apart from your competitors.

- **Succession Planning:** Employee share schemes can provide an excellent mechanism for slowly passing share capital into the hands of successors in a tax-advantaged manner. With most plans, it is possible to set strategic performance conditions which can help ensure that future owners are ready to take the reins.

# Types of Arrangement

When deciding what type of share plan is most appropriate for your company, it is often helpful to consider who you want to benefit. For example, do you want to provide awards to the senior key people who have a direct impact on the organisation's success, or would you like to provide an incentive for everyone?

## Targeted Share Plans

### Share Options

When companies look to incentivise a key individual or a small cluster of central personnel, the most popular choice is the highly tax-advantaged Enterprise Management Incentive (EMI). The EMI is a share option plan which effectively promises the right to purchase shares at a fixed price. There are usually performance and/or length of service conditions attached to awards, so it is an excellent tool for attracting, motivating and retaining talent. It is also possible to link the exercise to a specific event (e.g. the sale of the company.)

The tax-advantaged EMI is extremely flexible, but may not be available if certain conditions are not met by either the company, or the participants.

### Deferred Payment

Deferred payment arrangements help where a participant wants to be a shareholder, but cannot afford to pay in full for the shares straight away. Under a deferred payment plan, shares are acquired outright by the individual for a nominal amount. The remaining balance is treated as an unpaid loan that is settled over a specified period or at a pre-defined event, such as a sale or flotation. Bonuses or dividend payments might help to pay back the remaining balance.

Participants need to be aware this arrangement is not risk free. If the share value drops, the unpaid balance will be taxed as a benefit in kind. However this is not the only risk, in the worst case scenario (liquidation), the liquidator would call for any outstanding amount owed.

### Growth Shares

In this arrangement, participants acquire a special class of share that only has real value if performance conditions are met. The employees have to pay for the shares, but this is often inexpensive due to the restricted rights attached. This is a popular method amongst existing shareholders, as they can structure the shares so they do not give away value unless the set targets are achieved.

## All Employee Share Plans

Many companies will recognise that one of their most important assets is their people, and will seek to offer equity awards on a wider basis than just the senior management team. In order to do so, we usually recommend the HMRC tax-advantaged Share Incentive Plan (SIP), which must be offered to all eligible employees.

Working out which type of arrangement will help your company achieve its long term objectives can be a complicated affair and we recommend seeking professional guidance. In most cases, we offer a free initial consultation to interested companies, so there's no harm finding out!

To book your consultation or for more information on any of the content covered in this article, please contact a member of the RM2 team directly on 020 8949 5522, or via enquiries@rm2.co.uk.