



Enterprise Management Incentives

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What is the Enterprise Management Incentive scheme?

It is a share-incentive scheme designed to help small companies attract and retain key personnel and reward those employees for taking a risk.

Each share option must be notified to HM Revenue & Customs.

The Main advantages of an Enterprise Management Incentive scheme

- A motivational tool to attract/retain key employees
- No income tax or National Insurance charges on options granted at market value
- Shares will qualify as business assets for taper relief from the date of the grant, provided certain conditions are met
- Tax benefits and payroll savings for employers

TAX IMPLICATIONS

Corporation Tax

- The costs of setting up and administering EMI arrangements will be an allowable deduction in calculating taxable profits
- Tax relief is obtained on the difference between the market value and price paid for the shares on exercise

Income Tax

- Not chargeable in respect of the grant of the option
- Not chargeable on exercise if option is to acquire shares at not less than market value at the time the option is granted
- If there is a discount, tax is charged on difference between price paid on exercise and market value at date of grant (employer must operate PAYE)
- Tax relief is obtained on the difference between the market value and price for the shares on exercise

Capital Gains Tax

- For the purpose of computing taper relief, shares are treated as acquired when the option is granted. However it is proposed to abolish taper relief from 6 April 2008.

MISCELLANEOUS

Set-up and running costs

This will depend up on the number of employees and the complexity of the arrangement but we would estimate that set up costs would be in the region of £5,000 to £7,500. We will provide a fixed fee quote in advance to include scheme design, share valuation and agreeing same with HM Revenue & Customs and notification of scheme particular to HM Revenue & Customs as required by legislation.

SCHEME QUALIFICATIONS

Company

- Not a 51% subsidiary or under the control of another company
- Any subsidiaries of the company must be at least 75% owned and controlled by the company
- Company's gross assets (and/or group consolidation gross assets) must not exceed £30 million
- Exists wholly (or mainly) for the purpose of carrying on one or more qualifying trades
- A trade is a qualifying trade if:
 - It is carried on wholly or mainly in the UK
 - It is conducted on a commercial basis
 - It does not consist wholly or mainly in the carrying on of excluded activities
- Excluded activities include:
 - Dealing in land, shares or securities
 - Leasing
 - Providing legal or accountancy services
 - Property development
 - Farming
 - Operating or managing hotels
 - Operating or managing nursing homes or residential care homes

Employee

- Employee of the company or a qualifying subsidiary
- Works at least 25 hours per week, or if less, 75% of his working time
- No material interest in the company, i.e. less than 30% beneficial interest (excluding shares that may be acquired under a qualifying option)
- May not hold unexercised qualifying options in respect of shares with a value exceeding £100,000
- An employee who has been granted the maximum options and then exercises some, may not be granted further options within 3 years of the date of the last qualifying option

Option

- Must be granted for commercial reasons in order to recruit or retain key employees
- No limit to the number of employees holding unexercised options
- Total unexercised options must not exceed £3 million
- Shares must:
 - Form part of ordinary share capital (but may attach voting restrictions)
 - Be fully paid up
 - Not be redeemable
- Must be capable of being exercised within 10 years of the date of the grant
- Must take the form of a written agreement
- May include performance conditions affecting the extent of the employee's entitlement

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