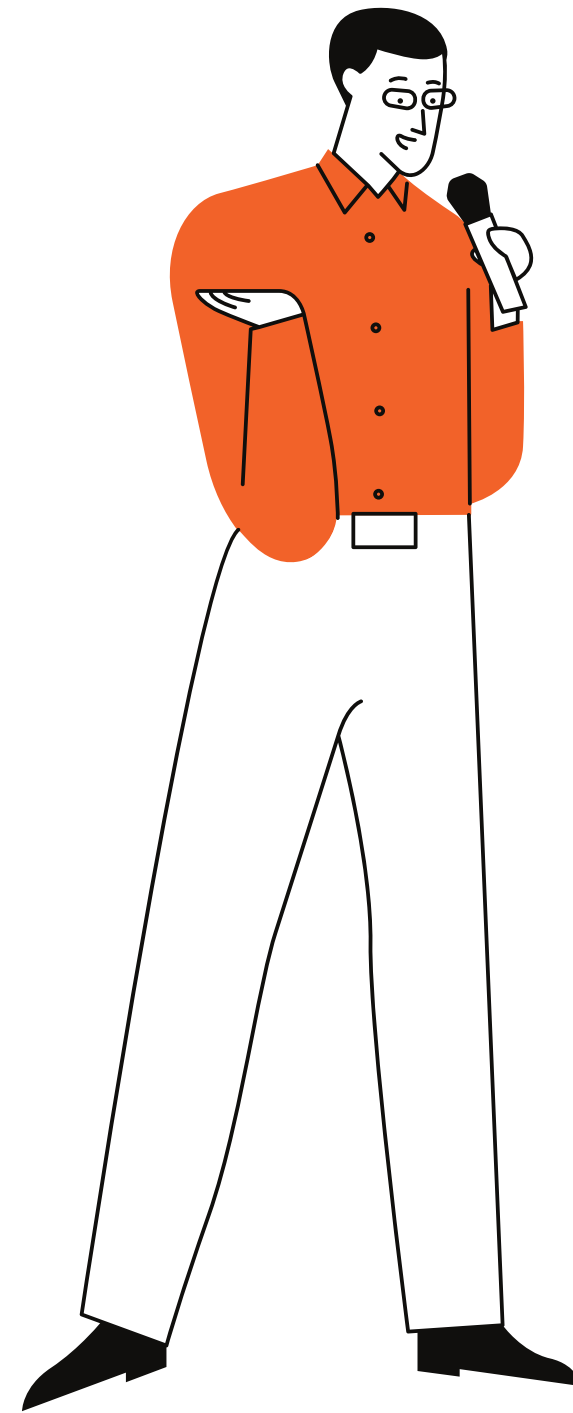


IN PLAIN WORDS



EMPLOYMENT RELATED SECURITIES (ERS)

and the EMI Share Scheme
(Enterprise Management Incentives)



What are Employment Related Securities or ERS?

Shares in companies are commonly used by employers to reward, retain or provide incentives to employees (Employment Related Securities or ERS). The most common forms of employment-related securities are share options and share awards. These may be provided to employees under a formal “scheme”, which will usually have a written set of rules, or as informal “one-off” awards of shares or grants of options.



These can include HMRC-approved share schemes, such as enterprise management incentives (EMIs).

However, there are also non-tax-advantaged employment-related securities, and these schemes may result in employees becoming liable to pay more income tax.

WHAT TYPES OF EMPLOYEE SHARE SCHEMES ARE AVAILABLE?

There are four main 'tax-advantaged' schemes:



EMI

Enterprise Management
Incentives Scheme



CSOP

Company Share Option Plan



SIP

Share Incentive Plan



SAYE

Save As You Earn Scheme

EMI

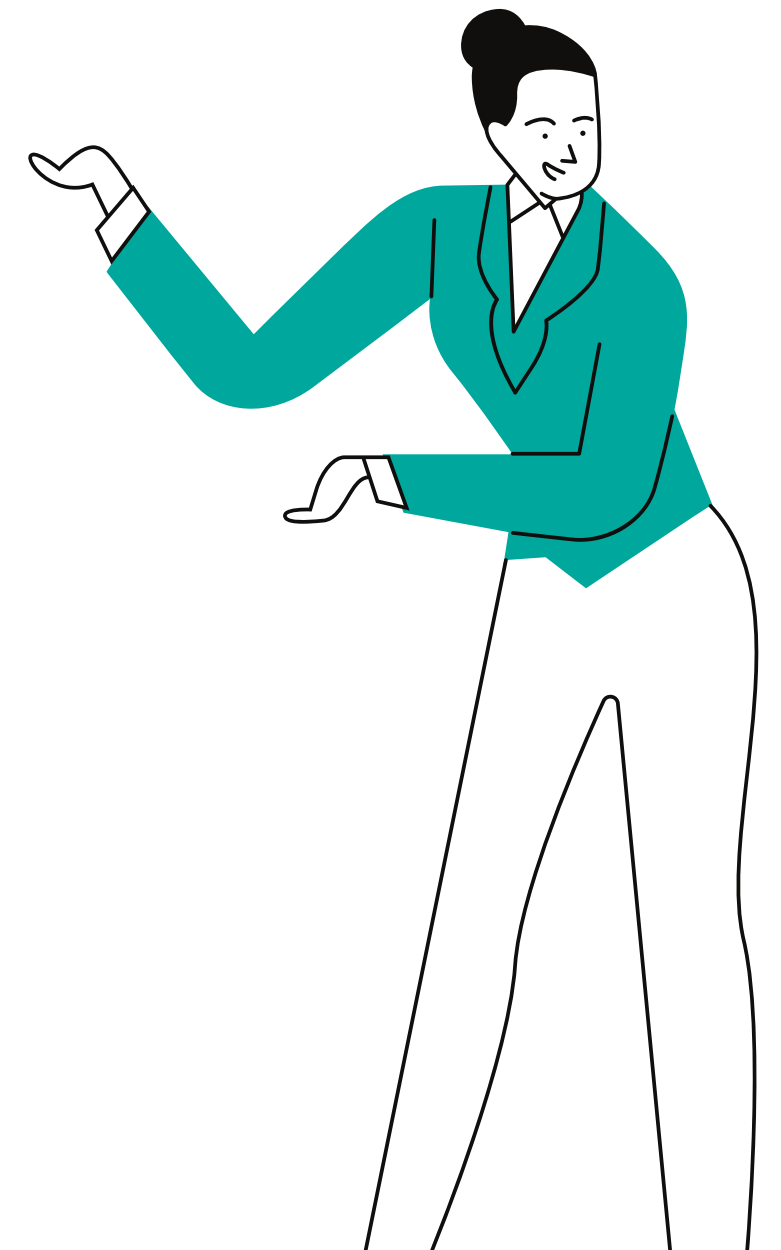
(Enterprise Management Incentives) scheme

EMI is aimed at smaller, trading companies or groups; it is very flexible, and at the same time is, broadly, the most tax-advantageous of the schemes.

EMI tends to be the scheme of choice, where the company (or holding company of the group) is a 'qualifying company' for EMI purposes.

Under EMI share options, a company's UK employees can acquire shares by first being granted options to acquire them. Statutory tax relief means that they do not pay income tax or National Insurance (NI) on their gains.

(Non UK) Group companies can also grant EMI options to employees in their UK subsidiaries.



Who in my company is eligible to receive EMI options?

Any employee is eligible if they work full time in the business (contracted to work 25 hours per week or more) or if 75% of their working time is for this business.



How do I know if my company is eligible for EMI?

Not all companies are eligible for EMI. There is a good chance your company will qualify if:

- your company is independent (not a subsidiary of another company)
- has total assets of less than 30 Million
- has fewer than 250 employees
- is a business that isn't on the list of "Excluded Trades" (involving Finance, Investment Activity or Licencing of Intellectual Property Rights for example)



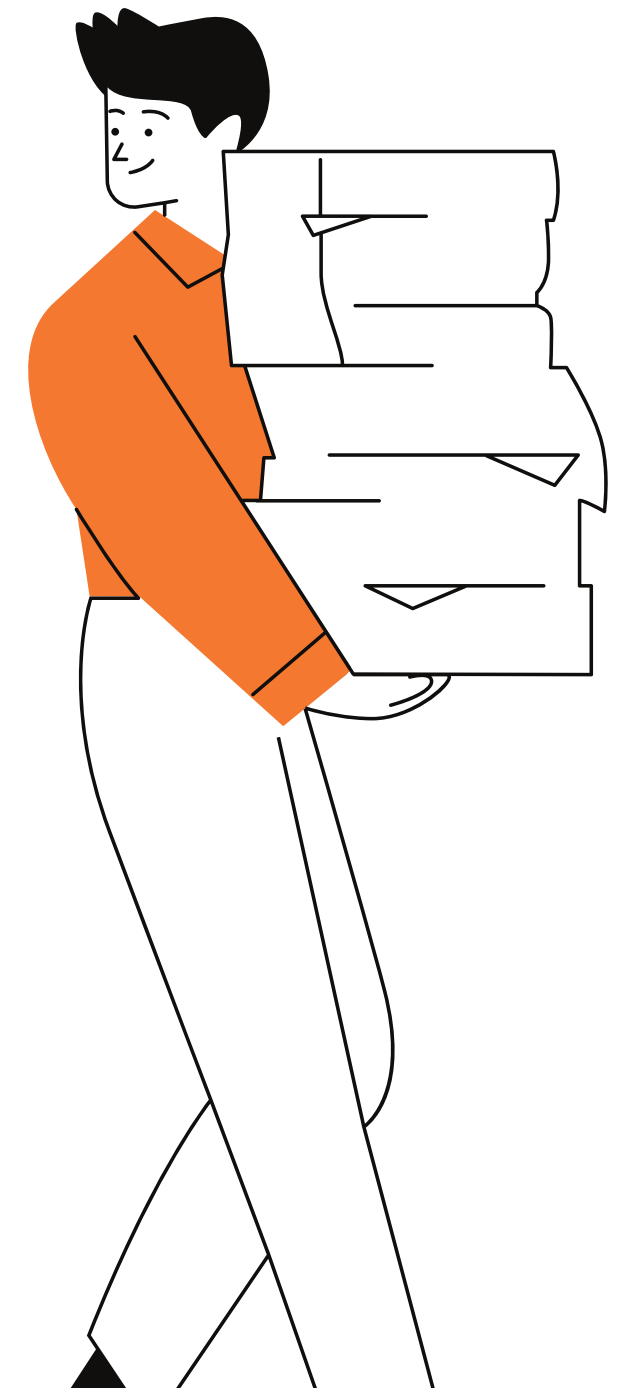
CSOP

(Company Share Option Plan)

This option scheme offers employees and directors share options.

Employees can exercise these options free of tax, if they hold the options for usually three years.

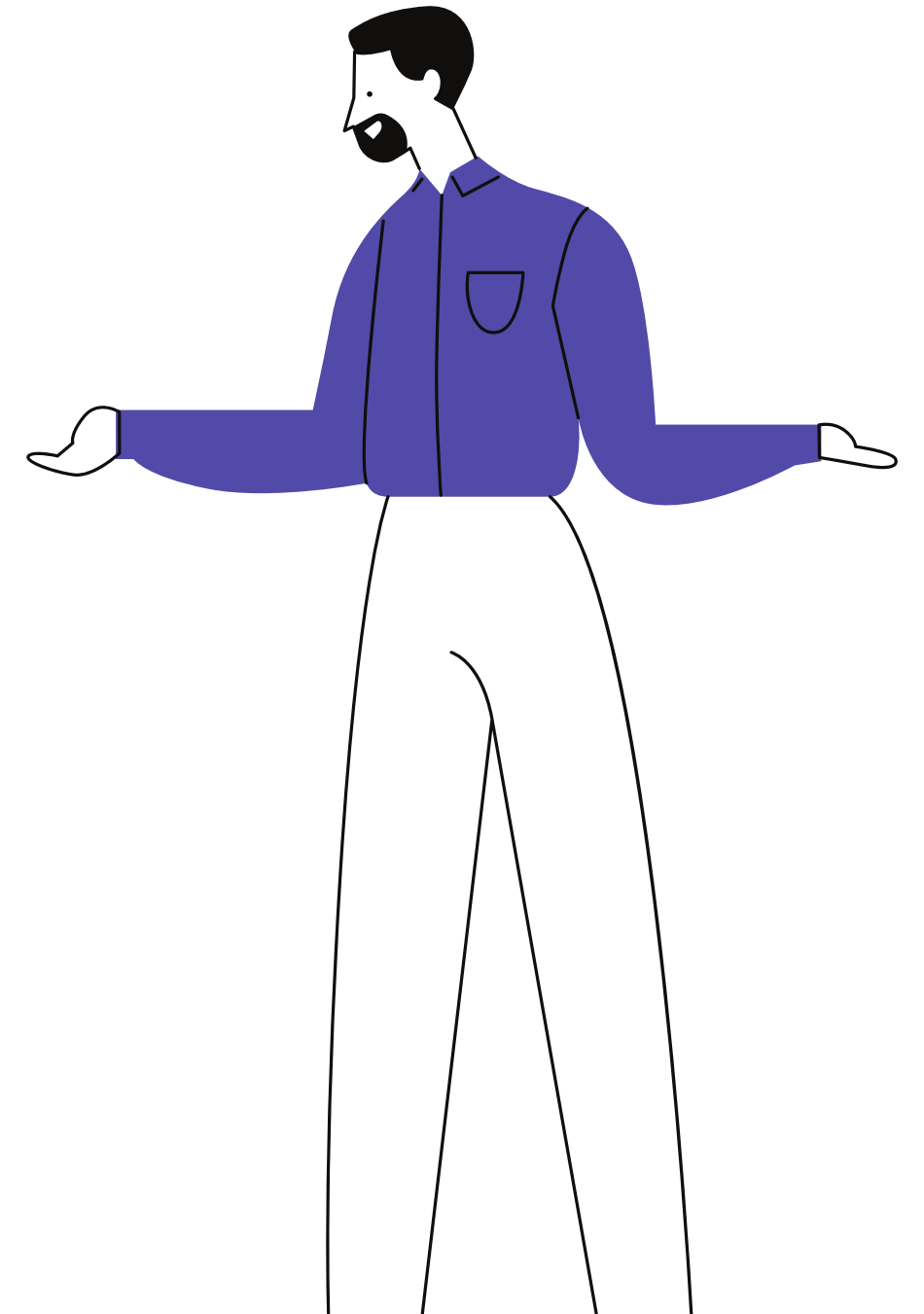
CSOPs are the choice if the business is too large for EMI options (e.g. The company needs to be listed on a recognised stock exchange or not controlled by another company).



SIP AND SAYE

(Share Incentive Plan & Save As You Earn scheme)

Being 'all-employee' schemes, these are more complex and costly to set up and administer; they are of more interest to larger, and in particular quoted, companies.



'UNAPPROVED ARRANGEMENTS'

Arrangements that do not come within any of the 'tax-advantaged' schemes we mentioned earlier are often referred to as 'unapproved arrangements'. They can take a variety of forms, but four common arrangements are:

- Ordinary (fully-paid) shares (particularly where the value of the shares is low)
- Nil-paid (or partly-paid) shares
- 'Growth shares'
- Share options



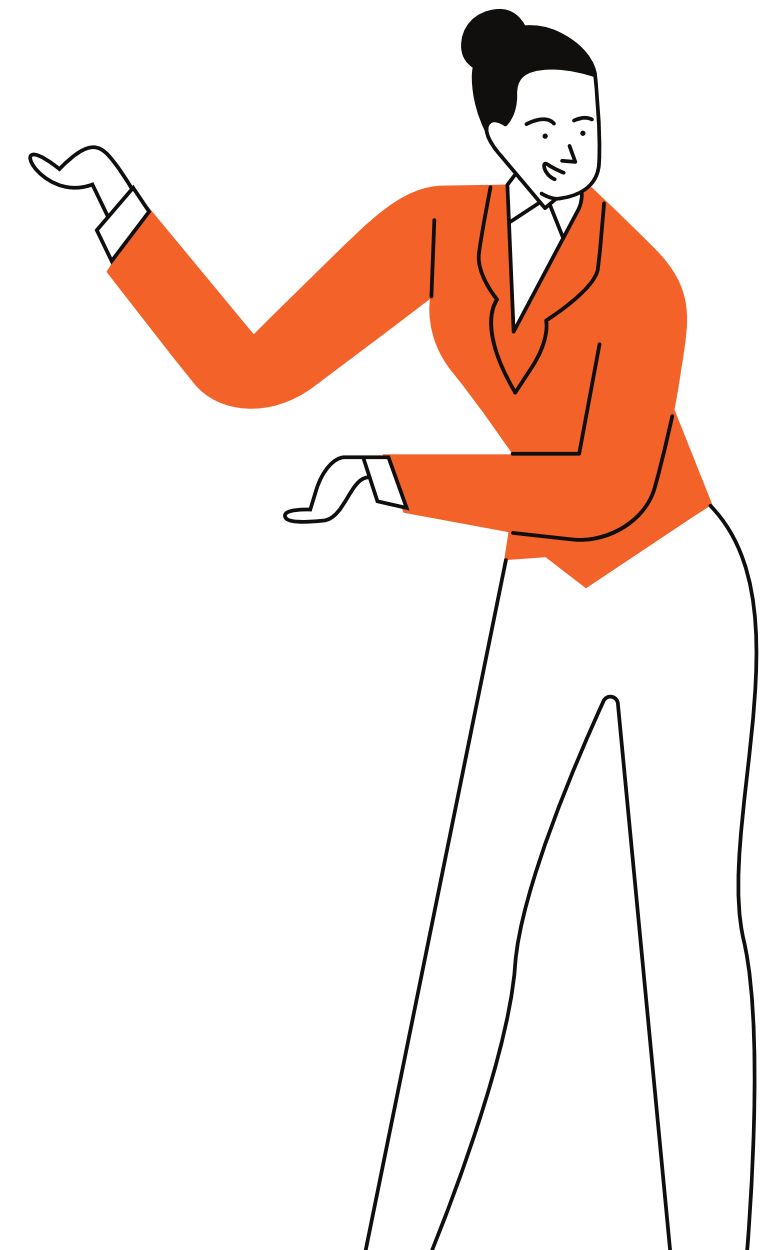
TELL HMRC ABOUT YOUR ERS SCHEMES

HMRC needs to know about any ERS schemes you run because there may be income tax liabilities for the employees taking part in them.

When employees acquire shares or securities without paying market value for them, they may still be liable for income tax in certain circumstances.

Therefore, if you decide to issue shares or share options to employees, you must ensure you're compliant by providing HMRC with an ERS return.

You must register all new ERS schemes with HMRC, including one-off awards or gifts of shares.

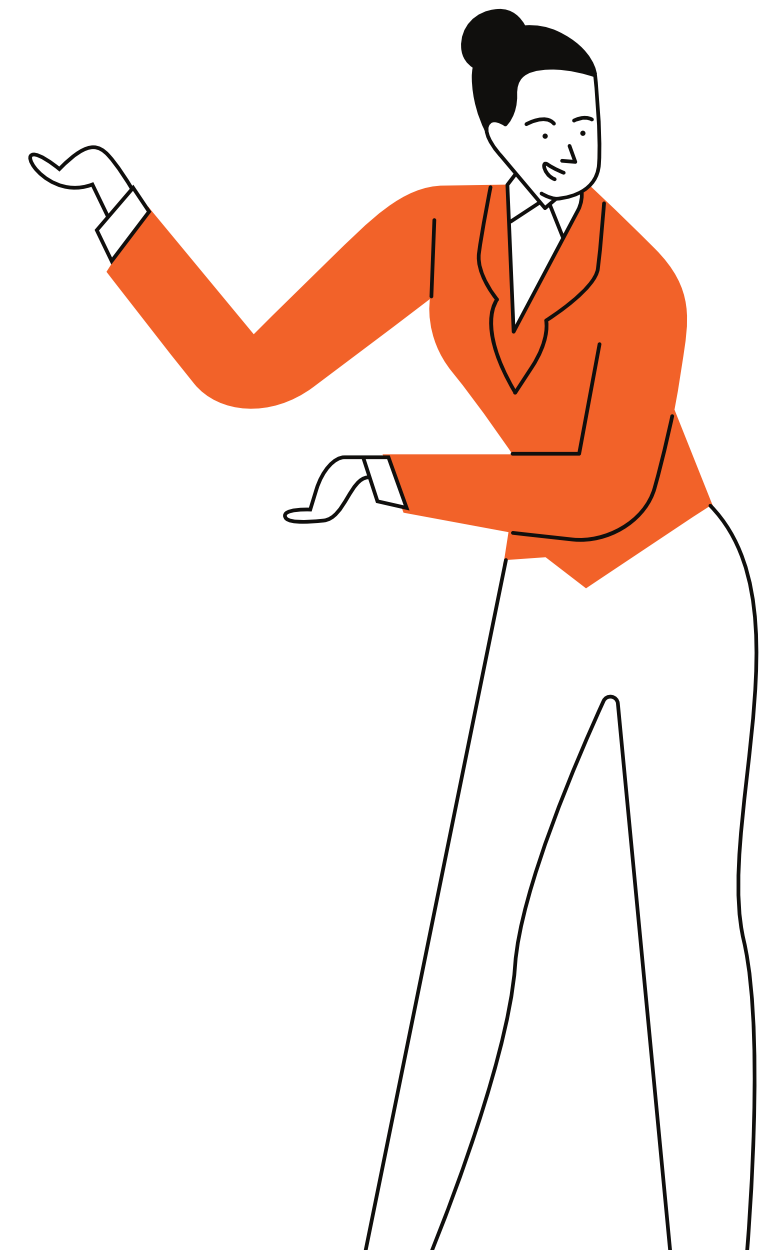


TELL HMRC ABOUT YOUR ERS SCHEMES

(1) All new tax-advantaged schemes should be registered by 6 July following the tax year it was established (including one-off awards or gifts of shares) - you only need to register non-tax advantaged schemes when there's a reportable event, e.g acquiring or disposing of securities, or assigning or releasing securities options.

(2) You must submit an ERS return for each registered ERS scheme every year (even if there is no reportable event). On the return, you will need to tell HMRC about any new ERS schemes you've launched, and any schemes that have finished.

3) You must tell HMRC about a grant of an EMI option within 92 days of the date of the grant.



Thank you!

If you have any questions regarding ERS and EMI Share Schemes, feel free to get in touch with us:

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