



An executive summary of EMI schemes

An Enterprise Management Incentive ("EMI" scheme) is an approved employee share scheme that is available to most trading companies, allowing employers to grant share options to key employees tax efficiently, as a reward for their efforts within the business and/or to retain and incentivise key staff.

Key benefits



Employees feel valued as they may become shareholders in the business



Employees feel like they've received a potentially lucrative bonus (but there is no cash outflow to you).



Employees are less likely to leave, helping to secure succession planning.



There is no tax suffered by the employee or employer on the grant of a share option

Qualifying companies

The total value of the company's gross assets must not exceed

£30 million

The company must be a trading company (i.e. not an investment company)



The company must not be a subsidiary of or controlled by another company, however, parent companies can qualify for an EMI

There must be fewer than **250 employees** at the date the EMI options are granted

Qualifying employees

Must not hold more than 30% of the shares of the company



Must be an employee of the issuing company, or an employee of a subsidiary



Required to spend at least 25 hours per week or 75% of their working time as an employee of the company



Qualifying options



Shares must be ordinary non-redeemable shares



Options to be exercised within 10 years



Market value must not exceed £250,000 per employee



Option terms **MUST** be agreed in writing and prohibit the option holder from transferring their rights

Tax advantages

- If an employer rewards an employee with approved shares, tax can be charged in the same way as a salary or bonus
- When EMI options are granted at market value, there will be no charge to tax at either grant or exercise of the options
- Prior agreement of the value of the company shares at grant can be obtained from HMRC
- Any subsequent disposal of the EMI shares will fall within the Capital Gains Tax regime and therefore any uplift in the value of the shares will be subject to 10% tax



— How does an EMI scheme work? —



WITHOUT AN EMI

ABC Limited grant Andy £20,000 of options which may be subject to income tax in the usual way



Andy is required to pay as much as 45% PAYE when he sells his shares



Andy's shares increase in value to £100,000



When Andy decides to sell his shares, his net gain is

$$£100,000 - £20,000 = £80,000$$

This means that Andy's tax bill could be $£80,000 \times 45\% = £36,000$ if we assume he pays 45% PAYE



WITH AN EMI

ABC Limited grant Andy £20,000 of options which may be subject to income tax in the usual way



With an EMI scheme, Andy pays 10% Capital Gains Tax on any uplift in value of the shares



Andy's shares increase in value to £100,000



When Andy decides to sell his shares, his net gain is

$$£100,000 - £20,000 = £80,000$$

This means that Andy's tax bill could be $£80,000 \times 10\% = £8,000$.

Andy could pay £28,000 less tax with an EMI scheme.