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Enterprise Management Incentive (EMI) Factsheet

The Enterprise Management Incentive ("EMI") is a well-established tax advantaged share option scheme. It is a government-backed way of attracting, retaining, and rewarding key employees, tax efficiently.

This enables smaller companies to attract and retain talent who will be incentivised to expand the business as agreed between stakeholders. Share options offer the employee the opportunity to purchase shares (known as the exercise date) in their employing company at some point in the future for an agreed fixed price, which is set at the time the share options are agreed (known as the grant date).

The price for the shares is agreed with HMRC's Shares and Assets Valuations team before the share options are granted to employees, providing the company and stakeholders certainty on the 'market value' of the shares prior to the grant of the share options.

What is an Enterprise Management Incentive ("EMI")?

- An EMI scheme is an approved (by HMRC), tax advantaged share option scheme.
- It is designed for smaller, entrepreneurial businesses in the UK, where cash is often tight and so aids managing cashflow whilst trying to attract and retain skilled employees.
- It allows employers to grant share options to key employees in a tax efficient way, giving employees a sense of ownership in their employing company, its growth and eventually its financial success, which could be hitting certain targets or a third-party sale.
- Given it is an HMRC approved scheme, there are a number of stringent conditions which need to be met.

Is there any flexibility with EMI share options?

- An EMI scheme allows companies to share their success with all or just a select group of employees.
- Companies can also choose the extent to which employees participate in the underlying value of the business.
- In addition to capital rights, you can choose whether the shares over which options are granted have voting and/or dividend rights.
- Finally, share options can be exit-driven, performance-driven, or time-based.

Tax benefits

- Employees can realise significant gains through the sale of their shares in the future, with little cash outlay at the time the share options are granted.

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- It helps to align the interests of the shareholders with that of the employees.
- There is no income tax or NIC to pay on the grant of EMI share options and if the share options are granted for at least their market value, there is no income tax or NIC to pay on exercise either.
- The disposal of the shares will be subject to the lower capital gains tax rate of 10% if the share options have been held for longer than 24 months, thus qualifying for Business Asset Disposal Relief ("BADR"). This will be on the first £1m of capital gains. Thereafter, capital gains will be subject to tax at 20% (or the prevailing rate at that time). Therefore, certain BADR qualifying criteria does not need to be met.
- It allows a company to agree the value of the shares in advance with HMRC.
- The company gets a corporation tax deduction when the share options are exercised, equal to the difference between the market value of the shares when they are acquired and the amount the employee pays for them (the exercise price).

Matters of which to be aware

- If share options are issued for less than their market value at the date of grant, then on exercise, the discount will be subject to income tax and potentially NIC.
- Both the company and the individuals receiving the share options will have to meet certain criteria to qualify for an approved EMI scheme and these criteria must continue to be met, otherwise the EMI scheme will cease to qualify, which may lead to a number of unexpected tax charges.

To establish if your company and employees are eligible for an EMI scheme and for more information about our valuation services, please contact a member of the team below:

Meet the Claritas Team:

For more information or to discuss any of the issues raised in this factsheet, please contact one of our experts below:

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