

## Enterprise Management Incentive design and implementation

Enterprise Management Incentive (EMI) is a government-backed employee option scheme that benefits from generous tax advantages compared with regular 'unapproved' share options.

### EMI overview

EMI options are a very popular incentive plan for growing trading companies. Some key features of EMIs are as follows:

- Options are granted to full-time employees to acquire shares in the company.
- Options are commonly only exercisable on a company exit event, such as a sale or listing of the company, but can be tailored to be exercisable earlier (say after a time period following grant).
- Options typically contain good or bad leaver provisions and can contain time-based vesting conditions or performance target as additional conditions of exercise. However, vesting and performance conditions are not a requirement and are often not included.
- No tax is payable on the grant of an EMI option.
- Provided the exercise price is set at or above the market value of the shares at the date of grant of the option, there should be no tax payable on exercise.
- It is possible to agree the share value at the date of grant with HMRC to achieve certainty on the tax position.
- The individual EMI limit is £250,000 of shares, although it is possible to apply some discounts to the whole company value, to squeeze as much equity as possible within the limits.

- The sale of shares by the option holder will be subject to Capital Gains Tax with current rates at 10% (this should apply if the option/shares are held for a total of at least two years), or 20% when compared with combined Income Tax and National Insurance Contribution rates of potentially over 60% for non-EMI options.
- You have flexibility in terms of whether to make the options 'exit only' or to allow for exercise after the completion of a vesting period.
- The exercise of EMI options generates a Corporation Tax deduction, the value of which can often add a significant amount to the sale price of the company if options are exercised just before a private sale of the company.

### How haysmacintyre can help you

haysmacintyre can carry out the full suite of EMI services, including:

- Advice to ensure that EMI is the most appropriate plan for you.
- A review of your company's position to ensure all the EMI rules are met.
- Agreement of market value of the shares with HMRC.
- Draft option plan rules, board resolution and individual option agreements.
- Assistance with employee communication.
- Support with all compliance forms that need to be submitted to HMRC.

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