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EMI Schemes & Growth Shares

THE ENTERPRISE MANAGEMENT INITIATIVE (EMI) SCHEME

The Enterprise Management Initiative (EMI) scheme provides an ideal way to incentivise current and future staff where paying premium salaries is not an option.

The EMI scheme is designed to help ambitious SMEs reward staff with tax-advantaged share options. Offering a scheme can help businesses attract and retain high quality individuals in a highly tax-efficient and cost-effective way.

What are the key benefits for the business of offering an EMI scheme?

Key business benefits include:

- EMI options incur no additional salary costs for the company
- Staff are motivated to work hard to make the business succeed, because they can benefit from growth in its value
- Staff retention is also encouraged
- There is potentially no income tax or national insurance contributions (NIC) consequences
- EMI schemes are extremely flexible and can be tailored to suit individual businesses and owners' preferences.

What are the key benefits for staff members?

Individuals participating in the scheme have the potential to increase their future wealth by helping the business grow in value. EMI options also have significant tax advantages for individuals – in some cases a 10% tax rate rather than 45%.

In what ways are EMI schemes flexible?

You can decide which members of staff to include in the scheme. This means you can target specific people whose efforts you consider most important for the success of the business.

EMI options can be linked to a new class of share, therefore owner-managers don't have to give participants the same rights they enjoy themselves.

Other flexible factors include:

- Potential to build in performance criteria to reinforce the motivational element
- Time periods for exercising options can be specified
- Ability to stipulate that share options can only be exercised on the sale of the business.

Won't I lose control of my business by offering options?

No. You can determine the terms of the EMI scheme so that you retain full control. For example, the options need not give employees any voting or dividend rights. As noted above, the scheme could also be set up so that share options are only exercised when the business is sold.

What happens if an employee with EMI options leaves?

Options will lapse on termination of employment. If a participating employee leaves, they lose the right to any future shares. In addition, a Shareholders' Agreement will set out the required terms for a buyback of shares already exercised by an employee exiting the business.

What businesses qualify?

Companies generally qualify for setting up an EMI scheme if they have gross assets under £30 million, less than 250 full-time employees and are not under the control of another company. Certain industry sectors are excluded however including financial services and property development.

What if my business doesn't qualify for an EMI scheme?

There are other types of share schemes you could consider, such as Growth Shares (please see below). We can advise you on the possibilities available to you. They may not necessarily offer exactly the same tax advantages as an EMI scheme, but can still provide tax effective ways to incentivise key staff.

GROWTH SHARES

This is a scheme that creates a new class of share that has no value until the value of the company increases and it participates in the growth in value from the date of issue. This could be a suitable alternative to EMI in that employees would benefit from the growth in the company, whilst paying tax under Capital Gains Tax rules.

Please get in touch to find out more. We can help you assess whether an EMI Scheme or Growth Shares could benfit you and your business:

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