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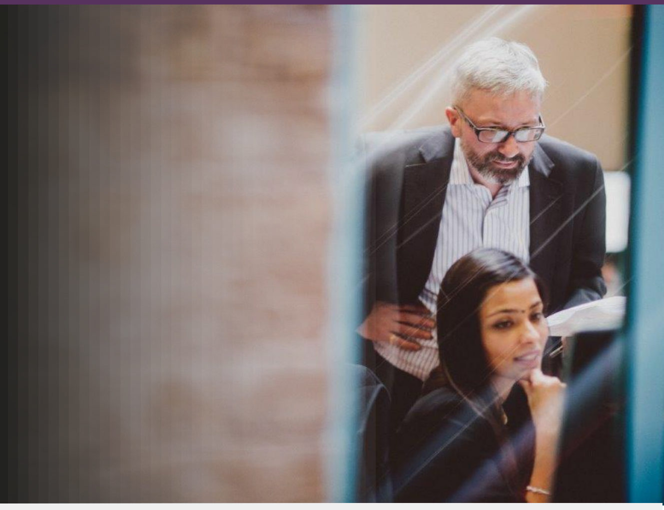
Share schemes: A perk or a pain?



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It's only fair that if your team do a good job, you offer them a reward. Share schemes can also act to incentivise a team, or they can turn out to be a pain in the bank account. So, if you decide to set up a share scheme, what should you consider before you start issuing certificates to your workers? Here's a quick look at the perks and pains of share schemes.

Why do it?

Firstly, you need to ask yourself why you're considering a share scheme. You could be doing it to:

- incentivise your workforce so that they are more invested in the company and its success;
- recruit or retain key personnel;
- reduce employment costs/employee remuneration;
- succession planning.

What scheme?

For employers, the most popular scheme is an Enterprise Management Incentive (EMI). The relief is in the form of EU state aid to companies granting EMI options. However, the current approval expired on 6 April 2018 and the relief has not yet been extended by the EU Commission. As things stand therefore, EMI options granted on or after 7 April 2018 may be treated as unapproved options. It is still worthwhile considering EMIs however as it would seem likely that contingency provisions will be put in place in due course.

A Share Incentive Plan (SIP) is also a fairly common mechanism. However, employees cannot be differentiated between and, if operated, a SIP must be offered to all UK employees. A SIP can include free shares, partnership shares or matching shares. Free shares can be given to an employee (up to £3,600 per year) and can be linked to performance. Matching shares provide that the company may agree to give additional free shares to employees who purchase shares.

An alternative is as a Save as you Earn scheme (SAYE). This carries two elements; a savings arrangement and an option. The company must be listed on a recognised stock exchange or be independent. The employee saves between £5-500 per month (after tax) for three or five years.

These are attractive as they allow the employee to save without having to pay Income tax or NI on the difference between the price paid for the shares and their value.

Those mentioned are examples of the most common schemes, but more are available, and you should take specific advice on the scheme best suited for your company's circumstances.

What are the advantages?

Providing company shares to your employees demonstrates that you're serious about growing your business, and that you want each employee to have a part in that expansion.

It shows that you value your employees, and are in it for the long haul, rather than just short-term gain. Giving up a certain amount of ownership of your business (although still retaining overall control), builds trust and increases commitment from all parties.

You may get corporation tax relief on the cost of setting up a share scheme, as well as the cost of providing free and matching shares. You don't pay employer's NI on shares or options, as long as all the relevant criteria are met. Taxation on share schemes, however, can get complicated, so expert advice from both lawyers and accountants is crucial to make sure you stay on top of your obligations.

What are the disadvantages?

Logistically, providing employee shares can be a nightmare. Top of the list is administrative costs (both time and money). Before you decide to set up a share scheme, it's important to talk the idea through with a solicitor, to look at the pros and cons, what type of share option is best and how to go about setting it up. It's not just the short-term set-up costs you need to think about, either, but the long-term management and documentation too.

The more shares you issue, the less control you have over your business. Bear in mind you'll need 75% of the voting shares if you want to control the important company decisions.

Remember that shares can go down, as well as up. And if your employees' shares start to drop in value, that could impact on morale. Not only are they seeing their investment decline, but it could be an indicator of deeper problems within the company. Share value acts as a litmus for the health of a company. You'll also have to ensure your employees have realistic expectations on the performance of their shares. Unless they work for Google, a few free shares in a company are not going to see them through retirement!

Share schemes are a great way to reward loyalty and stimulate growth. They do have their downsides, but overall, they're popular perks with employees, and done well, are fairly painless for bosses too.

For more information, speak to Karen Cole today.

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Note: This is not legal advice; it is intended to provide information of general interest about current legal issues.