



Enterprise Management Incentive (EMI) Scheme



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EMI Explained

The EMI scheme is an option based scheme and is specifically aimed at the smaller 'higher risk' trading company.

EMI options are particularly attractive for small or start-up companies that may opt for EMI options when cash is tight to remain a competitive employer against larger companies for key employees.

The scheme allows employers to grant share options to key employees in a tax efficient way, as a reward for their efforts, loyalty, and/or to retain and incentivise key employees.

The EMI options provide employers and employees with significant tax advantages and are much more flexible than other tax favoured share arrangements.

A number of EMI schemes are 'exit-based' with the share options being exercisable on a sale or flotation of the company. Most owner managed companies prefer this type of arrangement, since the option holders do not become shareholders until shortly before the sale of the company.

This also 'rewards' the employee option holders with a share of the sale proceeds (taxed at the lower capital gains tax rates).

Having share options can sometimes be more feasible and attractive to employees. The exercise conditions of the EMI options can also be based upon target achievement or after an employee has been at the company for a set number of years. Companies may prefer also not to provide outright shares to employees in order to avoid complications in the event of the employees leaving the company.

Companies offering EMI share options must be involved in qualifying trades.

Excluded trades include:

- Banking
- Farming
- Shipbuilding
- Legal services and
- Property development.





EMI Advantages

Having ownership in the company you work for can mean a lot to some employees.

The EMI scheme comes with a number of advantages, including:

- Share options up to a market value of £250,000 in a three year period;
- No income tax or National Insurance charge on exercise of options if granted at market value;
- The options can be granted conditionally with a varying number of exercise conditions, such as on performance basis;
- If qualifying conditions are met, a reduced capital gains tax rate at 10% in the event of sale of shares;
- Even part-time employees working for as little as 25 hours per week can qualify.

EMI FAQs

What companies are eligible to give their employees EMIs?

To be eligible for EMI, a company must

- Be independent and not controlled by another entity;
- Have gross assets less than or equal to £30 million;
- Employ fewer than 250 employees;
- Carry on a 'qualifying trade';
- Have a permanent establishment in the UK.

I work part-time in a company or less than 25 hours a week. Can I qualify for EMI share options?

Yes, if the amount of time you work for your primary company – where you would receive EMI share options – is greater than or equal to 75% of your total working time.

Are there any drawbacks to EMI?

The qualifying conditions of both employers and employees may be a discouragement to some companies. Meticulous structuring and oversight are required to ensure the share options adhere to HMRC guidelines. It is also important to notify HMRC within 92 days from the end of the tax year of granting an EMI option to ensure its EMI qualification.



If you would like to know more, please get in touch and let our experts help.

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