

# Equity incentives: News from Capital Strategies on share-based rewards

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# Introduction

## Brown's Budget changes are small but significant

Following last year's Budget which introduced EMI and ESOP, this year was always likely to be about evolution rather than revolution. After consulting with businesses and advisors, the Chancellor has introduced some small, but significant, changes to the existing legislation.

## EMI

- The total value of share options which can be granted under EMI is doubled to £3 million.
- The previous limit of 15 employees per company who can benefit under EMI has been removed altogether.

Taken together, these changes will now allow many smaller companies to achieve their goals for share-based incentives with one EMI plan, whereas previously they may also have established a CSOP (to extend participation beyond 15).

- Inland Revenue will now be able to offer advance assurance that a company will qualify.

We have encountered several companies where qualification is a question of fine judgement. The ability to establish qualification at the outset could, therefore, be valuable, so long as the Inland Revenue's rulings are balanced and not unduly restrictive.

- The time limit for notification of grant of options is extended from 30 days to 92 days.
- Companies will no longer have to seek prior approval from the Revenue for alteration to share capital if they are to demonstrate that the alteration is not a "Disqualifying Event".

## ESOP

- Employees buying shares from an ESOP Trust will be exempt from paying stamp duty.

Currently, there is a stamp duty charge at two points under the ESOP – one at the point when the Trust buys shares

from the Company, and one at the point when the employees buy shares from the Trust. This change will stop this double charge, as well as simplifying the running of the ESOP for the company. Removing stamp duty is important for employees, as the minimum stamp duty charge of 0.5% is rounded up to £5 per transaction, which could be a significant proportion of the monthly value of Partnership Shares purchased by employees.

- Employees in group companies will now qualify for participation in an ESOP simply by working for a qualifying period within any part of the group.

## Capital gains tax business assets taper relief

- This generous tax treatment will be extended to employees of non-trading companies, provided they have a material interest of no more than 10% in the company.

This will result in a small reduction in compliance costs for employees and their companies. Employees without a material interest will no longer need to consider whether their company is trading and companies will no longer be required to address this question on behalf of their employees.

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If you want to find out more about using share schemes generally to incentivise your employees, contact Robert Postlethwaite on (+44) (0) 20 7256 8000 or email him on [robert.postlethwaite@capitalstrategies.co.uk](mailto:robert.postlethwaite@capitalstrategies.co.uk).

For more information about Capital Strategies please visit our website <http://www.capitalstrategies.co.uk>.

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**Equity Incentives Limited** 35 Vine Street London EC3N 2AA

Tel: +44 (0)20 7861 4717 Fax: +44 (0)20 7488 0084

E-mail: [info@equityincentives.co.uk](mailto:info@equityincentives.co.uk) Website: [www.equityincentives.co.uk](http://www.equityincentives.co.uk) CDE: 823

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