

Enterprise Management Incentive (EMI) schemes

An example

Aim

EMI options are to be granted to a key employee over 5% of the share capital of ABC Ltd, exercisable only on the sale of the company.

To achieve 5% ownership in ABC Ltd, options are to be granted over five new shares.






Market value of 5% at date of grant = £6,250

Options are granted over five shares in ABC Ltd with an exercise price of £6,250, which can be agreed with HMRC in advance.

Five
years later

The shareholders of ABC Ltd receive an offer from XYZ PLC to sell the entire share capital for £1,000,000.

Options are exercised by the employee immediately prior to sale and sold.

	Proceeds received	£50,000	£1,000,000 x 5%
	Amount paid for shares	£(6,250)	(exercise price paid)
	Gain	£43,750	
	Capital Gains Tax payable	£(4,375)	(BADR @ 10%)
	Net proceeds	£39,375	(£43,750 - £4,375)

Note — Annual Exemption ignored for the purposes of this calculation.

If an EMI scheme had not been used, the employee would have paid tax at NI on the difference between the sales value and the exercise price, i.e. assuming a 40% tax payer in this example, the tax and NI would have been £18,375, i.e. net proceeds of only £25,375.

ABC Ltd

Receives a Corporation Tax deduction at the date of exercise equal to the difference in value between the exercise price and the market value of shares at the date of exercise.

If an EMI Scheme had not been used, ABC Ltd would have paid 15.05% Employers NI on the difference between the sales value and the exercise price, i.e. in our example a cost of £6,597.50.

$$\begin{array}{r}
 (£50,000 \\
 - \\
 £6,250) \\
 \times 19\% \\
 \hline
 \text{Tax Saving} \\
 \text{£8,312.50}
 \end{array}$$

If you have any questions about EMI schemes, please get in touch with your usual BHP contact or call Kieron Batham-Tomkins on 0333 123 7171. Part two of this blog series will focus on the criteria you need to meet to qualify for an EMI scheme.



bhp.co.uk
0333 123 7171

