



“friendly expertise”

Independent
member of



Enterprise Management Incentives (“EMI”)

EMI has been designed to be particularly attractive to small and medium sized companies to enable them to reward and motivate key employees in the form of share options. EMI offers flexibility to tailor awards to meet individual needs and offers very generous tax and national insurance treatment.

What are the main features of EMI?

Flexibility – Each individual option can be tailored for an individual key employee.

Option price – Companies can choose the price at which options are granted.

Control – Companies can choose the exercise terms and include performance criteria. Until these are met and the options exercised, the company has not surrendered any equity.

Income tax – No income tax or National Insurance will be chargeable on either the grant or exercise of the option if the exercise takes place within 10 years of grant and the exercise price is greater than or equal to the market value of the shares at the date of grant.

If the options are granted at a discount the discount will only be taxed on exercise.

Capital Gains Tax – CGT will be charged on the gain when the shares are sold but Business Asset Disposal Relief may be available to reduce the effective rate of tax to 10% on the first £1 million of lifetime gains as long as:

- The employee was granted the options at least 24 months prior to the sale of the shares.
- The shareholder remains an employee or director.

The availability of Business Asset Disposal Relief in respect of shares issued on exercise of EMI options is no longer affected by the size of the shareholding held.

Corporation Tax – The issuing company is usually entitled to a corporation tax deduction on the exercise of qualifying options equal to the market value at the date of exercise less the acquisition price paid by the employee.

Who may participate in EMI?

The company can choose which employees should participate.

Employees must work for the company for at least 25 hours per week or 75% of their working time if less.

The maximum market value of unexercised EMI options is £250,000 per employee over a three year period. The total value of unexercised options over company shares must not exceed £3 million at the date of grant.

Employees who control (or together with family members control) 30% or more of the share capital are not eligible to participate.

Which companies can participate in EMI?

Companies must satisfy the following criteria to qualify for EMI:-

- Companies must be unquoted and independent.
- Companies must have gross assets of £30 million or less.
- Companies must be trading in the UK or a parent of a UK trading group.
- Companies/groups must be carrying on a “qualifying trade”. Most trades will qualify but HM Revenue and Customs have listed some exceptions so individual advice must be taken.
- Companies/groups must have less than 250 employees.

As part of the review announced at Budget 2020, the government is publishing a consultation alongside the Budget on whether and how to expand the current Enterprise Management Incentives scheme to ensure it offers effective support for high-growth companies seeking to recruit and retain key employees.

For a free initial
consultation please
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