JERROMS MILLER
SPECIALIST TAX
Part of the SUMER Group

A Guide to Growth Shares

What are they?

Growth shares are a special class of share, which are incredibly flexible in their implementation.

Unlike tax-advantaged option schemes, Growth Shares have no specific limit or qualifying conditions required to issue them.

The recipient of the growth share will directly benefit from the growth in the issuing company's value from the point they are issued without diluting the existing shareholder's value in the company.

This has the added benefit of ensuring the existing shareholders are not diluted below their capital value at the time a new shareholder acquires shares.

The reason they are tax efficient is that growth shares are typically only eligible to capital value in excess of the market value of the company on the date they are issued. So the capital value of the shares are nil meaning there should be no (or very low) income tax implications.

Advantages

Growth shares are incredibly flexible and can be used to incentivise employees even where tax advantaged share option schemes are not available due to failing the qualifying conditions.

Growth shares can be issued to employees as well as non-employee such as investors.
The shares can also have rights to dividends and/or voting if required.

Growth shares are a separate class of shares issued immediately, as opposed to share options where the options are on exercised and become share capital on meeting the relevant terms. This means growth shares can immediately benefit from dividend and voting if these rights are attached to the shares.

Growth shares typically have no (or minimal) income tax implications on issue and benefit from capital gains tax on disposal of the shares in the future.

Example

TradeCo has two classes of shares: Ord shares issued on creation that participate in the entire capital value, and A Ord growth shares that only participate in the value of the company that exceeds £1m (being the value of the company when the growth shares were issued).

Tom, who originally founded the company, holds 100 Ord shares, and his employee, Harry holds 25 A Ord growth shares.

An offer is made to acquire the company for £2m, which is accepted. The proceeds are distributed as follows:

Tom		
Pre-growth share capital entitlement Post-growth share capital entitlement **Total proceeds**	100/100=100.0% 100/125=80.0%	1,000,000 800,000 **1,800,000**
Harry		
Pre-growth share capital entitlement Post-growth share capital entitlement **Total proceeds**	0/100=100.0% 25/125=20.0%	- 200.000 **200,000**

Type of Growth Shares

'Vanilla' growth shares will be a special class of share created specifically to facilitate the share scheme. They will have no right to participate in the current capital value of the company, instead only having a right to an interest in the company's future growth.

'Flowering' growth shares work very similarly to 'vanilla' growth shares. However, the participating employees cannot immediately share in the growth of the company until a pre-determined condition has been satisfied, such as the satisfaction of a target or the employee meeting a certain period of tenure.

Once these conditions have been met, the value of the growth shares will 'flower' and the employee can participate in growth since issue.

Implementation

1. The employee subscribes for new shares.
2. Identify the staff you want to participate in the growth share scheme.
3. Value the company and decide the amount of equity to use in the scheme.
4. Create the new class of growth shares. This will require the articles of association to be amended, this opportunity can be used to attach restrictions to the shares, such a leaver's provisions or drag-and-tag restrictions.

Get in Touch

JERROMS MILLER
SPECIALIST TAX
Part of the SUMER Group

Nick Wright
Head of Corporate Tax

0121 693 5000
07891 203 889
nickwright@jerromsmiller.co.uk

As a member of the ICAEW and CIOT Nick specialises in technical corporate tax planning and company reorganisations advising on a variety of projects from mergers and acquisitions to company incorporation, management buyouts and demergers. Nick is a regular writer for various tax journals with articles published in Taxaction, Tax Advisor and ICAEW Taxline. Presenting regular lectures to fellow professionals through various CPD providers including MBL, CPDStore and a variety of CIOT branches.

Pete Miller
Technical Director

0121 693 5000
07884 353 426
petemiller@jerromsmiller.co.uk

Pete began his career with the Inland Revenue in 1988 with roles in tax districts in Birmingham and London before spending several years in head office, culminating as the Inland Revenue's expert on the rules for company distributions and advance corporation tax. Since going into private practice 25 years ago, Pete has worked for Big 4 firms and run his own business for 11 years, advising a wide range of clients from owner managed businesses to the largest corporate groups. Pete is Chair of the CIOT's Owner Managed Business Tax Technical Committee, as well as being a member of the Tax Policy and Oversight Committee and of the Education Committee.

Client Testimonials

★★★★★

Our company Emerald Associates met with Nick who was courteous and helpful from the outset. It was also very reassuring to have our accountant, who was present at the Teams meeting, say that he had used their services and that they were indeed the experts in the field of Tax. Nick provided great clarity.

★★★★★

I've worked with Pete Miller and Nick Wright from Jerroms Miller on a few projects and each time have found their assistance and expertise invaluable. They and their team have a wealth of expertise and experience across a broad spectrum of taxes, in particular corporate reorganisations.

★★★★★

Jerroms Miller have provided specialist tax support on a number of transactions and reorganisations for our clients. As well as being technically very good Pete and Nick provide excellent ongoing support to clients both during and after the transactions which is both valuable and reassuring.

★★★★★

Jerroms Miller are a fantastic resource for dealing with our complex tax issues or when we need a second opinion on a technical query. Pete, Nick and the rest of the team are always quick to respond with clear and concise advice.

PODCAST
THE TAX HOUR

Nick Wright is joined by leading industry experts on the **@TheTaxHour** Podcast.
Listen for:

- **Insights into the world of taxation**
- **Expert advice**
- **Latest Tax updates**

@jerromsmillertaxhourpodcast

@jerromsmillertaxhour