JERROMS MILLER
SPECIALIST TAX
Part of the SUMER Group

EMPLOYEE SHARE INCENTIVES
what are the options?

WHY INCENTIVISE WITH SHARES?

Share incentives align the interests of employees with those of the owners. They reward, retain and motivate key people, and they can be delivered in a highly tax-efficient way. The right structure depends on the size of the company, the trade it carries on, and whether the reward is for the whole workforce or for selected individuals.

THE LANDSCAPE OF OPTIONS

The choices divide into two groups. Tax-advantaged schemes carry statutory reliefs but must meet detailed conditions. Non-statutory arrangements give no special reliefs but are flexible, and can be designed to be tax-efficient. Within the tax-advantaged schemes, some must be offered to all employees, while others can be targeted at chosen individuals.

Tax-advantaged – discretionary
TARGETED AT SELECTED EMPLOYEES
- EMI – Enterprise Management Incentives (ITEPA 2003, Sch 5)
- CSOP – Company Share Option Plan (ITEPA 2003, Sch 4)

Tax-advantaged – all-employee
MUST BE OFFERED TO THE WHOLE WORKFORCE
- SIP – Share Incentive Plan (ITEPA 2003, Sch 2)
- SAYE – Save As You Earn / Sharesave (ITEPA 2003, Sch 3)

Non-statutory equity
FLEXIBLE – NO STATUTORY LIMITS
- Growth shares – a bespoke class sharing only future growth
- Direct share awards – shares gifted or sold to employees

Non-tax-advantaged options
SIMPLE, BUT NO RELIEFS
- Unapproved options – options outside any statutory scheme
- Income tax and NIC arise on exercise on the gain

How employee shares are taxed – the general rule
- **Shares acquired for less than market value are taxed as employment income on the undervalue (ITEPA 2003, s.62 and Part 7)**
- **Share options usually carry no charge on grant. The charge arises on exercise, unless a tax-advantaged scheme removes it**
- **Where shares are "readily convertible assets" – broadly, where they can be turned into cash – PAYE and NIC apply**
- **Growth in value to eventual sale is charged to Capital Gains Tax, above the base cost**
- **The company may claim a corporation tax deduction equal to the employee's income charge (CTA 2009, Part 12).**

ENTERPRISE MANAGEMENT INCENTIVES

WHAT IS IT?

An EMI is a tax-advantaged, discretionary share option scheme for qualifying trading companies, from start-ups to scale-ups. It is the most flexible and generous of the statutory schemes.

Options can be granted to chosen individuals and can be made subject to performance targets, time vesting, or an exit event. This makes EMI the default choice for qualifying companies that want to reward and retain key people.

TAX TREATMENT

Grant

No tax charge on grant.

Exercise

No income tax or NIC where the option was granted at or above market value at grant. If granted at a discount, income tax (and NIC if a readily convertible asset) on the lower of market value at grant and at exercise, less the price paid.

Sale

CGT on the growth above base cost. BADR applies on favourable terms: the 5% personal-company test is relaxed and the holding period runs from grant of the option (18% on qualifying gains, £1m lifetime limit).

REQUIREMENTS

UK trading company or holding company of a trading group, carrying on a qualifying trade

Gross assets ≤ £120m and fewer than 500 full-time-equivalent employees

Not under the control of another company; total EMI options ≤ £6m

Employee works ≥ 25 hrs/week or 75% of working time; no material interest over 30%

Individual limit ≤ £250,000 of shares under option at grant

Notify HMRC by 6 July following the tax year of grant; exercisable within 15 years

The company limits were substantially increased from 6 April 2026 (previously £30m gross assets, 250 employees, a £3m option pool and a 10-year exercise period). The £250,000 individual limit is unchanged.

ADVANTAGES

- Targeted at key people, with flexible performance and time conditions.
- The most generous statutory limits.
- BADR-friendly, and a corporation tax deduction arises on exercise.

DISADVANTAGES

- Trade exclusions (banking, farming, property development, legal and accountancy services) and the independence requirement still rule out many companies.
- A disqualifying event removes the reliefs unless the option is exercised within 90 days.
- Subsidiaries cannot grant; valuation and notification administration applies

COMPANY SHARE OPTION PLAN

WHAT IS IT?

A CSOP is a tax-advantaged, discretionary share option scheme. Unlike EMI, there is no limit on company size and no restriction on the trade carried on.

This makes CSOP the natural alternative where a company is too large for EMI, operates in an excluded sector, or is listed. From 6 April 2023 the individual limit doubled to £60,000 and the old share-class restrictions were removed.

TAX TREATMENT

Grant

No tax charge on grant.

Exercise

No income tax or NIC where exercised between the third and tenth anniversary of grant, or earlier in specified good-leaver and takeover circumstances. Exercise outside those windows gives an employment income charge.

Sale

CGT on the growth above base cost. BADR may apply, but only on the normal conditions (5% holding and two years from acquisition of the shares), so it is less readily available than for EMI.

REQUIREMENTS

No company size or trade restriction – open to large, listed and excluded-trade companies

Options over fully paid, non-redeemable ordinary shares

Shares must be listed, or in a company not controlled by another

Employee or full-time director (≥ 25 hrs/week); no material interest over 30%

Individual limit ≤ £60,000 of shares (market value at grant)

Exercise price not below market value at grant; register and self-certify by 6 July following the tax year of grant

ADVANTAGES

- No company size or trade restrictions – suits companies that cannot use EMI.
- Selective, with a clean income-tax-free exercise once qualifying.
- A corporation tax deduction arises on exercise.

DISADVANTAGES

- Lower individual limit than EMI (£60,000).
- No discount permitted on the exercise price, and a three-year minimum hold for relief.
- BADR is harder to obtain than under EMI.

GROWTH SHARES

WHAT IS IT?

Growth shares are a separate class of shares designed to have little or no value when issued. They share only in the future growth of the company above a set "hurdle".

They are not a statutory scheme. That makes them flexible and free of the size, trade and value limits that apply to EMI and CSOP. They are often used where a company cannot qualify for EMI, where bespoke rights are needed, or where existing shareholders do not wish to be diluted.

TAX TREATMENT

Grant

No tax charge on grant.

Exercise

No income tax or NIC where exercised between the third and tenth anniversary of grant, or earlier in specified good-leaver and takeover circumstances. Exercise outside those windows gives an employment income charge.

Sale

CGT on the growth above base cost. BADR may apply, but only on the normal conditions (5% holding and two years from acquisition of the shares), so it is less readily available than for EMI.

TAX TREATMENT

Acquisition

Because the shares have little or no value at issue, there is little or no employment income charge. A robust valuation is essential. A s.431 election (ITEPA 2003, s.431) is usually made within 14 days to fix the value and protect future growth from income tax.

Growth

Future growth above the hurdle accrues as capital, not as employment income.

Sale

CGT on the growth above the amount paid and any amount already taxed. BADR is difficult to secure on its own, so growth shares are often issued inside an EMI wrapper to access the relief.

KEY FEATURES

£0	Hope Value
Typical value on day one	Premium HMRC expect on the hurdle

ADVANTAGES

- No company size or trade restrictions – suits companies that cannot use EMI.
- Selective, with a clean income-tax-free exercise once qualifying.
- A corporation tax deduction arises on exercise.

DISADVANTAGES

- Lower individual limit than EMI (£60,000).
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ALL-EMPLOYEE SCHEMES

These tax-advantaged plans must be open to all employees on similar terms. They suit broad workforce engagement rather than rewarding selected individuals. Both are highly tax-efficient where the holding conditions are met.

Share Incentive Plan (SIP)

Shares are held in a trust on the employee's behalf and pass to the employee on withdrawal. Four types of share can be awarded:

- Free shares – up to £3,600 a year.
- Partnership shares – bought from pre-tax salary, up to £1,800 or 10% of salary a year.
- Matching shares – up to two free shares for each partnership share.
- Dividend shares – dividends reinvested in further shares.

Tax treatment

No charge on award. Shares held for at least five years leave the plan free of income tax and NIC. CGT is avoided altogether if the shares are sold directly from the plan.

Save As You Earn (SAYE)

Employees save a fixed monthly amount over a set term and may use the savings to buy shares under an option granted at the outset.

- Monthly saving of up to £500.
- Savings contract of three or five years, fixed at the start.
- The option price may be set at a discount of up to 20% of the share price at grant.
- A tax-free bonus may be added at the end of the contract

Tax treatment

No income tax or NIC on grant or on exercise of the option. Only CGT applies, on the growth above the option price – and a transfer into an ISA or pension can shelter that gain.

When an all-employee plan fits

- The aim is to engage and retain the whole workforce, not to reward selected individuals.
- The company wants a structured, HMRC-approved plan with predictable tax treatment.
- A long-term savings or share-ownership culture is valued – both plans reward employees who stay.
- Set-up and trustee administration costs are justified by the size of the workforce.

SIDE-BY-SIDE COMPARISON

	EMI	CSOP	Growth shares	SIP	SAYE
Statutory basis	ITEPA Sch 5	ITEPA Sch 4	None (law)	ITEPA Sch 2	ITEPA Sch 3
Who can recieve	Select employee & director	Select employee & director	Select individuals	All employees	All employees
Company size/trade limits	Yes (eased Apr 2026)	None	None	None	None
Individual limit	£250,000	£60,000	None	£3,600/ £1,800	£500/ month
Tax at grant/ awarded	None	None	Little or none (with s.431)	None	None
Tax at grant/ award	None if granted at MV	None if 3–10 years	Not applicable	None if held 5 years	None
Tax on sale	CGT	CGT	CGT	CGT	CGT
BADR	Favourable Terms	Normal rules	Hard	Normal rules	Normal rules
Best suited to	Key staff in qualifying SMEs	Larger, listed or excluded-trade companies	Bespoke, growth-only equity	Whole-workforce ownership	Whole-workforce saving

Choosing between them — a practical starting point

- A qualifying trading SME rewarding a few key people will usually start with EMI.
- A company too large for EMI, listed, or in an excluded trade will usually look at CSOP.
- Where bespoke rights or a pure "growth-only" stake are needed, growth shares may be the answer — often combined with EMI.
- To engage the whole workforce, an all-employee SIP or SAYE plan is the route.

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We offer an initial free, no obligation call giving us the chance to meet and discuss your needs.

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