Client Resource

Employee share schemes

A guide for clients

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Reward your staff with a stake in the business.

As an employer, there are many ways you can reward and incentivise your staff, from Christmas parties to team lunches. But one of the most attractive options is an employee share scheme.

Employee share schemes allow you to give some (or all) of your employees a stake in your business. Not only are share schemes a great way to show your appreciation for your team's hard work, but they also give staff a vested interest in your success.

In recent years, more and more companies have chosen to start an employee share scheme. By the end of the 2021 tax year, 16,330 companies were operating a scheme – a 6% increase from the year before.

But what are employee share schemes, and how do they work?

What are share schemes, and why do employers offer them?

As the name suggests, an employee share scheme allows you, as director of your company, to give shares to your employees. This could include just the upper management or the whole team.

There are many reasons you may decide to start up your own scheme. Maybe you're looking to attract new staff, or retain the ones you currently have: either way, a share scheme is an effective way to motivate staff and maintain a rewarding work environment.

Not only are share schemes good for your employees, but for you as well. If you provide one through an HMRC-approved scheme, you could take advantage of some attractive tax reliefs. As your scheme will be wholly and exclusively for business purposes, you may be able to deduct any costs associated with the scheme from your corporation tax bill. You can also provide shares without incurring employers' National Insurance contributions (NICs) if you meet certain criteria.

Other advantages of an employee share scheme include the following:

- supplementing salaries if your company is relatively new or cash-low
- aligning the interests of your employees and shareholders
- motivating your current employees by providing a shared goal.

Before you decide whether to start an employee share scheme or not, there are some disadvantages to consider:

- shares are unpredictable, and their value can fluctuate, meaning employees could become dissatisfied
- if you award too many shares, you could lose the majority shareholding
- there are admin costs when setting up your scheme and running it.

Tax incentives

As mentioned, share schemes can be a tax-efficient way of rewarding your employees' hard work. Some schemes will allow you to provide shares without paying employers' NICs, while others will only incur capital gains tax (CGT) on the employee.

Even if a share scheme falls outside the scope of income tax, your employees will have to pay capital gains tax if they sell their shares. The rate of CGT they pay could be lower than their income tax rate, depending on how much said employee has earned before selling their shares.

Types of employee share scheme

As with most Government schemes, there's more than one to choose from. It's important to pick the one that will benefit you and your employees the most.

The first decision to make is whether you want to offer the share scheme to key employees or the whole team.

Schemes for key employees

While many companies will want to provide a share scheme for every employee, it's not always feasible – especially for new or smaller companies.

By offering your senior employees, such as upper management or department heads, a share scheme, you can motivate them to hit targets based on KPIs or the overall quality of their work. The main schemes for key employees are:

- the enterprise management incentive (EMI)
- the company share option plan (CSOP)
- growth shares.

Schemes for all employees

If you're in a position where you can easily provide a scheme to each employee in your company, you have two main schemes to choose from. These are:

- the share incentive plan (SIP)
- the save-as-you-earn scheme (SAYE).

Only some companies will be eligible to offer certain schemes. Each scheme has certain criteria you have to meet before joining. Deciding factors include:

- number of employees
- the overall value of your company assets
- your annual profit.

For full details on the range of employee share schemes and the eligibility criteria, you can visit the Government website.

How do I set up an employee share scheme?

If a share scheme sounds like a good idea for your company, there are a few steps to take before you can start handing out shares to your team.

1. Check your eligibility

Before starting the setup process, you'll first have to check if your company or employees are eligible for your preferred scheme.

2. Design your scheme

Now that you've chosen your scheme, you next need to decide how it'll work. You'll have to decide:

- which employees you'll include
- how many shares you're going to offer
- when you'll distribute the shares
- how employees will earn their shares.

3. Authorise the scheme

Even if you're the director of the company, you'll still have to gain authorisation from your existing shareholders before starting your scheme.
Remember, some shareholders may be concerned about their stake in the company and its value if you're offering your employees part of the company.

4. Register with HMRC

The final step in your employee share scheme setup will be registering your scheme with HMRC. Any new tax-advantaged scheme has to be declared by 6 July following the tax year of establishment.

You cannot register the following schemes after 6 July:

- SIPs
- SAYE
- CSOPs.

You can register your share scheme on the Government website with your Government gateway ID.

Employee share schemes give you an excellent opportunity to motivate and incentivise your team. Not only do they offer a generous benefit, but they can be a very tax-efficient way to reward your employees.

Get in touch to learn more about employee share schemes.

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