

The Joy of EMI Share Option Schemes



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Introduction

The [Enterprise Management Incentive](#) (EMI) is an incredibly cost-effective, tax-efficient way of sharing ownership with employees, in a way that protects the business.

More than 14,000 UK companies have set up an EMI scheme, to grant equity in the form of options to employees. Interest in EMI schemes is at an all-time high, as more and more founders recognise the many benefits of employee ownership.

This guide will help you quickly get to grips with EMI schemes. You will learn:

- How EMIs compare with other types of share schemes.
- How to start an EMI scheme for your team.
- The tax implications for recipients.
- The types of conditions you can set.

You'll also find links to helpful resources and further reading.

If after learning more about EMI, you feel it's right for your team, [book a free, no-obligation consultation](#) with one of our equity specialists.

They'll show you how [Vestd makes light work of share schemes](#), including EMI.

Ifty Nasir

Founder & CEO of [Vestd](#)

Over 90%
of UK SMEs say
EMIs are good
for business.



What is an EMI scheme?

An Enterprise Management Incentive (EMI) is a government-backed, tax-advantageous share options scheme.

You can offset the costs of the scheme and the tax benefits achieved by your employees against your company's tax liability.

You also have the ability to **set conditions for recipients**, including performance or length-of-service milestones. This helps you to protect the business, while motivating employees.

These schemes are relatively flexible, in terms of both the conditionality and the timeframes that can be set as part of their terms.

They are more often than not the right choice for startups, scaleups and SMEs that want to share ownership with their employees.

Why do businesses give EMI share options to employees?

EMI option schemes allow businesses to:

- ☒ Attract and retain the best people over longer periods of time.
- ☒ Align interests by giving employees a sense of ownership in your company.
- ☒ Reward those who help you grow the business by enabling the team to share in its success.
- ☒ Benefit from a more committed and engaged workforce: businesses with share schemes tend to outperform those that don't share ownership.

Additionally, the tax implications of an EMI option scheme are more beneficial to employees than the alternatives.

How do EMI schemes stack up vs other schemes?

EMI schemes are the most tax-efficient way of distributing equity to your team.

Why? Because tax is incurred only on the value of the shares at the time of their award rather than at the time of exercise (at which their value may have risen).

Additionally, Capital Gains Tax is applied at a discounted rate rather than the standard rate as ([providing certain conditions are met](#)) EMI options qualify for Business Asset Disposal Relief (BADR) which is great news for shareholders.

So EMI is more often than not the right way to go, but there are a few other ways of distributing equity, notably **CSOPs**, **growth shares**, **unapproved options**, and **ordinary shares**.

Let's take a quick look at the main differences between these five different scheme types, and what each one can be used for.

The pros and cons of the five main share schemes

| | EMI Options | Growth Shares | CSOPs | Unapproved Options | Ordinary Shares |
|---|--|---------------------------|---|--|-----------------|
| Tax efficient for employees | ✓ (Most tax-efficient) | ✓ | ✓ | ✗ (not typically) | ✗ |
| Tax efficient for non-employees | ✗ (not available) | ✓ | ✗ (not available) | ✗ | ✗ |
| Incurs tax on award | ✗ | ✗ | ✗ | ✗* | ✓ |
| Incurs tax on exercise | ✗ (as long as the exercise price is set at or above AMV at grant) | ✗ (N/A) | ✗ (If exercised between 3-10 years following the grant date) | ✓ (Income Tax on value at exercise) | ✗ (N/A) |
| Incurs tax on sale | ✓ (CGT at lower rate - see below) | ✓ (CGT on growth only) | ✓ (CGT at the standard rate) | ✓ (Income Tax, NI and CGT may be payable) | ✗ (CGT) |
| Qualifies for Business Asset Disposal Relief (BADR) | ✓ (If shares or options are held for two years) | ✗** | ✗** | ✗** | ✗** |
| Shares issued immediately | ✗ | ✓ | ✗ | ✗ | ✓ |
| Options exercised at a later date at a pre-agreed price | ✓ | ✗ | ✓ | ✓ | ✗ |
| Max share value | ✓ £250k per employee, £3m for the company. | ✗ (N/A) | ✓ £60K per employee based on share value at the time of grant. | ✗ (N/A) | ✗ (N/A) |
| Conditionality (ability to set conditions that must be met to complete share ownership) | ✓ | ✓ | ✓ | ✓ | ✗ |
| Typically used when exchanging equity for cash | ✗ | ✗ | ✗ | ✗ | ✓ |

*Unapproved options can result in a tax liability on grants to non-UK-based employees. [Learn more.](#)

**Unless qualified under general rule. [Learn more.](#)

Does your business qualify for an EMI scheme?

A business will usually qualify for an EMI if it meets the following requirements:

- Has up to 249 employees.
- Has assets of less than £30m.
- Is not majority-owned or controlled by another company.
- Is not in one of the excluded industries, including banking, farming, property development, provision of legal services, shipbuilding, or leasing.

Many startups and scaleups - and the majority of established SMEs - will meet these eligibility requirements.

In the event that your company doesn't then one of the other ways of distributing equity will be a better fit.



Please have a look at our guide on [EMI eligibility](#) for more information.

How do employees qualify for an EMI scheme?

There are also eligibility requirements for individual employees:

01. They must spend at least 25 hours per week or 75% of their total working time as a company employee.
02. They may not hold more than 30% of the company's shares.
03. They may not hold EMI and or CSOP options worth more than £250,000 (at the time of grant).



A full list of EMI qualifications for businesses, employees, and options can be found on our website. [Click here.](#)

What does the EMI scheme setup process look like?

There are a number of steps to take, but a top level view of the process looks like this:

Establish eligibility

Ensure that your business, employees and options meet the qualifications for EMI.



File for valuation

Your business must file with HMRC to receive a valuation for use with your scheme.



Design the scheme

Create the scheme to qualify as EMI when it is filed with HMRC.



Authorise the share pool

Authorise your employee share pool and receive approval from your board and shareholders.



Grant the options

You have 90 days following HMRC's approval to grant the options.



Register with HMRC

Inform ERS about new grants in the previous tax year during your next annual return.

The EMI setup process explained

Once you have established your eligibility for an EMI scheme, your scheme must be created to qualify as an EMI when it is eventually filed with HMRC.

The first step is to value your business and seek approval of that valuation from HMRC.

This valuation is **valid for 90 days**. This provides some certainty regarding tax treatment going forward, as long as all due criteria and processes are followed.

Once the valuation is agreed upon, you will need to **authorise your employee share pool** and receive approval from your board and any shareholders. After this, options may be granted.

Finally, you must inform the ERS service of each registered EMI scheme following the end of the tax year in which the grant is made when you submit your end-of-year return, which is due at the end of the tax year with a **92 day deadline** usually ending around **July 5th**.

The tax implications of an EMI scheme

Businesses offering EMI options are eligible for a Corporation Tax (CT) relief if qualifying shares are acquired by employees upon the exercise of an EMI option. Companies can also offset the cost of setting up the scheme against tax.

The CT relief is typically the difference between what the employee pays for their shares and their value when their options are exercised.

Employees receiving option grants via an EMI scheme are eligible for BADR at the time of sale. This tax relief applies to any gains on the actual market value (AMV) of shares at the time of grant, so long as the options and/or shares are held for 24 months from the date of the grant.

If there is a disqualifying event that causes your business, an employee, or the scheme to no longer meet the qualifying criteria, the employee has 90 days from the time of the event to exercise any vested options before those options lose their advantaged tax status.

£500m

Income Tax and National Insurance relief savings in the tax year ending 2023.

£81,500

Average relievable gain per exercise event in the tax year ending 2023.

*Source: [National Statistics](#), [HMRC](#).

How do I manage an EMI option scheme?

In the long run you will need to manage your EMI scheme by **adding new recipients**, **processing leavers**, and **updating your cap table** to reflect the current options issued.

You will also need to **notify HMRC** of any changes, such as new option grants, employee departures, or a company exit (buyout or change in ownership).

Managing your EMI scheme on your own can be very difficult and time-consuming. And that's why we built Vestd. It makes scheme creation and management so much easier.

Our team of experts will help you every step of the way, throughout the lifetime of your scheme.

Remember that launching a scheme is just the start: making sure it remains compliant is essential (around one in two schemes have the kind of issues that can cost people millions).



We have greatly simplified this complex process. We will:

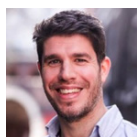
- Help you generate a valuation
- File the valuation with HMRC
- Create dynamic vesting schedules
- Make it easy to manage issued options.

All agreements are digitally accepted by recipients.

There is no paperwork, no posting, no filing. And therefore no admin headaches.



Vestd has the most user-friendly platform and was built for UK businesses, by a team of genuine experts that helped us to get everything set up. What they don't know about share schemes isn't worth knowing.



David Biggs,
CFO, Pusher

EMI setup timeline

Here's how the process works for Vestd customers...

How to launch an EMI scheme

Onboarding

- Connect Companies House
- Add shareholders details
- Cap table healthcheck**
- Subdivision if necessary*
- Adopt Vestd articles if needed

Valuation

- Draft valuation report*
- Agree valuation report**
- Send valuation to HMRC
- Recieve your HMRC approved valuation
- Valuation countdown begins*

Authorise

- Confirm company governance
- Confirm option pool size
- Send resolution for signing*

Valuation is valid for 90 days max

Design

- Scheme setup overview*
- Consider key questions
- Design option scheme

Distribute

- Add people to the scheme
- Generate scheme documents*
- Invite recipients to accept

Notify

- Notification process begins*
- Register each scheme with ERS on or before 6 July following the end of the tax year in which the grant is made.

Post-setup activities

There are a few things to do after the initial setup phase is complete.

Post-setup actions (the app does the hard work)

Mandatory compliance obligations

- HMRC Annual Notification (the app prepares the data for you to submit)
- Confirmation Statement (the app prepares the data and submits once you approve)
- Notify Companies House of any director, PSC or company detail changes

All activities are carried out by you (mostly via the app) unless otherwise stated, as follows:

* Activities we or the app carry out

** Activities we carry out together

Other potential activity obligations

- Exercise options (if requested by recipients via their dashboard)
- Alloting shares, e.g. to investors or after the exercise of options (Companies House forms auto-submitted and share certificates generated via the app)
- Conduct stock transfers/conversions/buybacks (and send out relevant authorisations)
- Pass other resolutions, e.g. changing share class rights, updating articles

Managing your EMI option scheme on Vestd

A short, solid pink horizontal bar.

Vestd is the UK's original share scheme and equity management platform. And the one and only platform for SMEs that's FCA-regulated and connected to Companies House. We've helped thousands of business owners set up and [manage their EMI schemes](#), so you're in safe hands.

The Vestd platform allows you to:

- ☒ Create and submit an EMI scheme using dynamically generated documents.

- ☒ Simplify the creation of reminders, relevant files, and submission of notifications to HMRC.

- ☒ Create / manage your share pool.

- ☒ View your cap table in real time.

- ☒ Build your own vesting schedules.

- ☒ Digitally exercise shares and sign the paperwork.

- ☒ Communicate the value to employees via a shareholder portal.

Talk to an EMI scheme specialist



Want to explore this in more detail?

Book in a call with one of our experts. We'll quickly figure out if EMI is a good fit for your needs, and will explain the process.

It is an opportunity for you to ask questions and get some real insight into what's working for other companies like yours.

Click here to schedule a free call today
[- let's talk equity.](#)



Vestd is the platform of choice for UK SMEs issuing shares and options. We help businesses create, execute and manage shares & options schemes simply and affordably.

Vestd Ltd is authorised and regulated by the Financial Conduct Authority (685992).

All information correct at the time of publishing.
See a mistake? **Give us a shout**, we'll sort it.