
We work collaboratively with our clients and their advisors to support the implementation and ongoing administration of a diverse range of employee incentive arrangements.

# Company Share Option Plans (CSOPs)

## Working in Partnership with Employers

### What are CSOPs?

A CSOP is a UK tax-advantaged employee share option plan available to listed companies and to independent private companies (i.e., those not under the control of another company).

The employer has discretion as to which employees can participate in the plan. Options may be granted to each employee over shares with a total market value at the date of grant of up to £30,000.

The exercise price must be at least equal to the market value of the shares at the date of grant. Provided the option is not exercised before the third anniversary of the date of grant (or, if earlier, on the employee becoming a "good leaver"), no income tax or National Insurance Contribution (NIC) arises on exercise of the option.

It is flexible and can be designed to meet the particular needs of each business, its owners and its employees and offers generous tax reliefs to the participant and to the company.

Wherever there is a shared belief in the growth potential of the company the right of an option holder to realise the value of that growth, at relatively low tax rates, can be a powerful incentive. This is particularly so in the case of a private company where a sale or flotation of the company may be considered once that growth is achieved.

### How does an CSOP work and what design choices are there?

Under a CSOP the employer gives the employee a formal option agreement. This is a legal right to acquire shares in the employing company (or in the case of a group, normally the parent company or a listed subsidiary).

There is a range of design choices:

> The the employer has discretion as to which employees can participate;
> The exercise price set out in the option agreement must be at least equal to the value of the shares at the date of grant but subject to that may be whatever amount the employer chooses;
> The employer may impose conditions that must be met before the options can be exercised (e.g., meeting business targets, etc.);
> The employer may provide that the option can be exercised only within a specified period (of up to 10 years) from the date of grant;
> The employer may impose further conditions such as "good" and "bad" leaver rules to ensure that those who leave for "good" reasons (e.g., illness, redundancy, retirement, etc.) may exercise some or all of their options, while those who leave for "bad" reasons (e.g., to leave to join competitors) lose their options;
> The option may be to subscribe for new shares on exercise, or to buy existing shares from other shareholders (such as an employee benefit trust, and so on).

### The main conditions for CSOP tax relief are as follows:

This is a brief summary and should not be relied upon alone.

> The company must either be listed or not under the control of another company;
> Company directors must work at least 25 hours a week to be eligible. Other employees have no minimum working time condition;
> If the company is a "close" company for tax purposes, any employee who already owns more than 30% of the company is excluded;
> The total value of shares (measured at the date of grant) over which a participant may hold options at any time is limited to £30,000;
> The CSOP plan must be registered with HMRC;
> The employer must make annual online returns to HMRC of all relevant events in the plan.

## Advantages for the employees:

- There is no tax or national insurance contributions (NIC) charge on the grant of the option
- Provided the option is not exercised before the third anniversary of the date of grant (or on the employee becoming a “good leaver” if earlier), no income tax or NIC arises on exercise of the option.
- If the value of the shares increases between the grant and exercise that gain is not charged to income tax or NIC on exercise.
- When the employee sells the shares capital gains tax will be due on any gain realised on that sale, subject to any otherwise unused annual exemption (£12,300 for the 2020/21 tax year), normally at a rate of only 20%.
- In a private company, at the time of grant the market value of the shares for tax purposes would normally involve a very substantial “minority discount” (often in the range 60% to 90%) from the “pro rata” value of the shares. But on a sale of the company no such discount would apply. The potential for low-taxed gains on a corporate exit is therefore substantial even if there is little or no growth in the value of the company itself.
- HMRC will agree a valuation of the shares in advance of the grant of the option so that the employer and employee can have certainty on the tax treatment on exercise of the option.

## Advantages for the employer:

- Giving the employee this valuable benefit may reduce pressure for pay rises or bonuses or other cash remuneration
- On exercise of the option, the company will normally benefit from a deduction from its profits in calculating its corporation tax liability, equal to the employee’s gain, even though the company does not incur any cash cost in providing the benefit.

# Why Choose Fiduchi?

**Working in partnership with you**

### Independence

As a management-owned business, Fiduchi is well positioned to provide flexible solutions to clients. In addition, our independence allows us to work with the best advisors, and other third parties, for each individual client.

### Experience

As a core Fiduchi service, the Employee Incentives Team has vast experience helping a broad range of employers achieve their employee attraction, retention and motivation goals through their incentive arrangements.

### Personal Service

We believe in the value that a personal approach to client servicing brings. Clients have clear lines of communication with team members who understand their specific requirements.

### Scope of Service Offering

With true expertise in each area of our service offering we are uniquely positioned to apply our solutions driven approach to satisfy multiple service requirements in a seamless manner.

### Regulation

Services are provided from Jersey and London giving clients the comfort that stable, well regulated jurisdictions, which have been at the forefront of employee incentives servicing for decades, brings. Fiduchi Limited is regulated by the Jersey Financial Services Commission.

If you would like to know more about our Employee Incentives or about Fiduchi, please contact:

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