

# Company Share Ownership Plan (CSOP)

## Introduction

Employee engagement is a much discussed topic in the business community for a good reason. Your employees are the lifeblood of your business and losing key employees or not attracting new talent can cause significant disruption and financial loss.

There are many ways to incentivise management and employees and the best way will depend on your business.

Granting share options under a Company Share Ownership Plan (CSOP) is a way for companies to recruit and retain key staff by providing them with an equity-based incentive, usually in circumstances where the company is not able to grant Enterprise Management Incentives (EMI) share options.

## What are CSOP share options?

A share option is a right to acquire a specified number of shares in a company at a future date for a pre-determined price.

But why not simply give shares in the company rather than options? One of the reasons may well be tax, as a gift of shares can attract a tax charge (and sometimes also National Insurance).

By contrast, a CSOP is a tax-advantaged share incentive endorsed by the UK Government to encourage employee ownership of companies, which allows a company to grant share options to chosen employees or full-time directors. No income tax is payable on either the grant or exercise of CSOP options provided certain conditions are met. There is just a charge to capital gains tax on the growth in value of the option shares when they are sold.

A CSOP is not as flexible as an EMI, as the exercise price of CSOP options must not be less than the market value of the shares at the date the options are granted and the maximum value of options to each employee must not exceed £30,000.

In addition, any gain made by the individual is only exempt from income tax if the option is exercised at least three years (other than in certain prescribed circumstances), and no more than 10 years, after the option is granted. It is therefore usual for CSOP options to be exercisable only after three years.

## Who are they for?

CSOP share options may be suitable for companies that do not satisfy the various conditions needed to grant EMI options. For example, where the company exceeds the EMI size limits for gross assets or number of employees, where the company is listed or where its trade is an excluded trade for EMI purposes.

A CSOP may therefore be suitable as part of the incentive arrangements of UK listed companies, where an overseas parent company wishes to incentivise employees of a UK subsidiary, to incentivise part-time employees (not directors) that do not meet the EMI full-time working employee requirement, as an alternative to SAYE plans, or where small awards are made to a large number of employees.

The employee or full-time director who is granted CSOP options must not already hold more than 30% of the shares in the company, or its assets, including any shares or assets held by their spouse, parents, children, siblings etc.

## What are the benefits?

CSOPs provide generous tax reliefs. There is no income tax or National Insurance charge on the grant or exercise of a CSOP option provided the various CSOP conditions are met.

The growth in the value of the shares between grant of the option and ultimate sale of the shares is charged to capital gains tax, likely at a rate of 20% under current rules. This compares to a current income tax rate of up to 45%, plus employee and employer National Insurance contributions, for an employee bonus.

On exercise of the CSOP option, the company can usually obtain a corporation tax deduction based on the market value of the shares at that time.

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## Design

CSOPs are flexible and the design of CSOP options can be tailored to your circumstances.

CSOP options may be granted subject to performance conditions, provided these are objective and stated in the option agreement.

It is also possible for the shares under option to be subject to restrictions.

If a company has more than one class of share, the majority of shares of the same class as the CSOP shares must, however, be either 'employee control' shares or 'open market' shares.

Share valuations of the shares under CSOP options can be agreed with HMRC in advance.

The CSOP need to be registered with HMRC on or before 6 July following the tax year in which options are first granted. There are also annual reporting requirements thereafter.

## Want to find out more?

Please email Hasan Hashmi or contact a member of the tax advisory department at MHA Moore and Smalley on 0161 519 5050.


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