

FOCUS ON

Company share option plans

Under Company Share Option Plans (CSOPs), employers can grant employees options on up to £30,000 worth of shares each. These are discretionary schemes – the company can select the employees and directors it wishes to participate in the plan. (These schemes were previously known as ‘discretionary share option plans’ or ‘executive share option schemes’).

How do they work?

The company grants eligible employees or directors an option to purchase the company’s shares in the future at a price set on the date of grant.

The share price, fixed on the day the option is granted, must not be lower than the share’s market value on that day.

The employee can exercise their options after a specified period. If they do so, it is at the fixed price, not the market price at that time.

For example, a company may grant an option over 1,000 shares at £2.50 per share. In three years’ time the market value of each share may be £6. The participant will be able to exercise the option by paying the company £2,500 and the participant acquires shares that are worth (at the time of exercise) £6,000.

How are they set up?

A CSOP scheme means a scheme which

- Is established by a company
- Provides for share options to be granted to employees and directors, and
- Is not SAYE option scheme.

Under these schemes employees and directors are granted share options which give them rights to acquire shares. If certain conditions are satisfied no liability to income tax arises when the options are exercised. Unlike SAYE option schemes, they are not required to be open to all employees.

Qualifying employees

There is an employment requirement for individuals to participate in an approved CSOP scheme. The scheme rules must make it clear that only full-time directors and qualifying employees (with no working hours requirement) of the company establishing the scheme, or in the case of a group scheme a constituent company, can be granted options.

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It is not possible to extend the eligibility requirement to include part-time directors, however it is acceptable to provide for more stringent eligibility requirements such as only full-time employees. In practice however this would limit flexibility, so stricter eligibility would be achieved more easily by the application of discretion when making grants rather than setting stricter eligibility requirements. There is no employment requirement at the time of exercise and, although companies may include such as a condition of exercise, the legislation itself does not provide for such a requirement.

Tax treatment

No Income Tax or National Insurance Contributions (NICs) is payable on the grant of CSOP options.

If an employee sells their shares at a profit, no Income Tax or NICs are due on the gain if the option is exercised in accordance with the provisions of the scheme at a time when the scheme is approved. However, Capital Gains Tax may be payable if gains exceed the employee's annual tax-free allowance.

The employing company can get corporation tax relief for the costs of establishing and administering the CSOP and for the option gain (the value of the shares at exercise less the option exercise price) that arises on exercise.

Option limits

No participant can be granted approved options over shares with a value of more than £30,000 calculated at the date of grant.

For the purposes of testing an individual's participation limit for an intended grant of options, the scheme rules must require all subsisting options held by him which were granted under the approved CSOP schemes of certain connected companies to be aggregated.

Material interest

Participation in the scheme is not open to people who own more than 30% of the company.

The aim is to prohibit anyone who already has a substantial interest in a company extending it by means of tax-relieved share options under approved CSOP schemes, the grant of which the person concerned may be able to influence.

Scheme details

The scheme must meet the purpose of providing benefits in the form of share options to employees and directors and features included in the scheme that are neither essential nor reasonably incidental to that purpose are not acceptable.

HMRC approval

A CSOP scheme does not need HM Revenue and Customs (HMRC) approval before options under it are granted. Rather it is for the employer with their advisers to set up a CSOP scheme which meets all the necessary conditions to qualify as a CSOP. Once set up, the employer must notify HMRC online that the CSOP scheme has been set up and self-certify that it meets all the necessary conditions. It must do this by the 6 July following the tax year in which options are first granted.

Contact Us

For further information please speak to your usual MHA MacIntyre Hudson tax contact or contact your local office.

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