FOCUS ON

Joint Share Ownership Plan (JSOP)

A JSOP is a tax efficient means of linking employee and employee reward to growth in the value of the employing company or group.

A JSOP is effective where a company cannot use approved share option plans (or such plans have reached their limits) or where existing shareholders do not wish share ownership to pass to employees (typically an owner managed business). A JSOP fits well where listed shares are ''illiquid'' or sensitive to market transaction e.g. typically companies on AIM or PLUS.

How it works – an overview

An employee acquires a joint interest in shares along with the trustees of an employee benefit trust, the trust is normally sited outside the UK.

The employee's interest is in the future growth in the value of the shares above inflation or a carry cost. The trustee is entitled to the balance of the value in each of the shares.

The employee normally extracts value when certain conditions set at the start are met. Those conditions may include, financial, personal or time based performance measures.

An employee will extract value by selling back their interest to the trust. The plan does not therefore require shares to be bought and sold, rather their interest in the growth is sold. Like share options, if the growth has not exceeded the initial value plus carry cost, the interest is worthless. The plan does not reward poor performance.

Leavers generally forfeit their interest back to the trust.

Tax implications

The employee's interest in the shares will have a small value at the start of the plan which the employee can pay for or, if not, pay the income tax on that value.

When the interest is sold by the employee, the proceeds (growth in the value of the shares above the carry cost) will be subject to capital gains tax at 20%*.

The gain does not attract a corporation tax deduction for the company, unlike the gain on most share options.

> *A JSOP fits well where listed shares are 'illiquid' or sensitive to market transaction e.g. typically companies on AIM or PLUS .*

Example

The employee and trustees jointly acquire an interest in 100,000 shares with a current market value of £1 per share. The trustees pay 99p for their interest and the employee pays 1p together with either the value of their interest or tax on that value. The carry cost might be, for example, 4% per annum.

At the end of the performance period, e.g. the employee may be required to hold the interest for 3 years, the shares are worth £5. The employee sells their interest worth £3.86 (growth less carry cost) per share, in aggregate £386,000.

The employee's proceeds are subject to CGT at 20%*, compared to unapproved options taxed at up to 47%.

* If the employee is a higher rate tax payer

Costs

The JSOP would incur an initial implementation fee, with the option for directors to seek comfort from Counsel on the tax treatment. Other costs would include where relevant:

- Valuation of the shares
- Valuation of the interest in the shares
- Initial trust set up costs
- Trust ongoing administration fees

Contact

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