

Incentivising staff led to a sale price of £10m.

The problem

The European Commission has approved the UK's Enterprise Management Incentive (EMI) scheme under EU state aid rules. The previous approval expired on 6 April and the Commission's announcement says the new approval will continue to apply until the UK leaves the EU.

ABC Limited, a privately owned company, had a three year plan to grow the business value in advance of a sale. The company was valued at £2m, but the desired exit price was £8m. In order to achieve this growth, the shareholders identified several key employees whose retention would be key to the success. The company approached Wilson Partners and requested assistance with a management incentives solution in order to help motivate and retain the key employees. They considered offering bonuses to key employees based on achieving certain levels of growth, but were also willing to grant some equity incentives if this could be achieved cost effectively.

The solution

After a discussion with the owners of ABC, we identified that an EMI share scheme would be the most beneficial method to achieve the company's goals. A bonus in the hands of an

employee could be taxed at a rate as high as 45% plus national insurance contributions for both the company and the employee. A simple award of shares could also be liable to up to 45% income tax. Not only did an EMI scheme give the company significant flexibility, but it also presented tax savings for both the company and the employees. We worked with the company to prepare a valuation of the EMI options and agreed this with HMRC.

It was concluded that the options would be exercisable on a sale of the company, and the employees could only benefit from the scheme if they remained in employment until sale. The options were successfully issued and gave the following tax benefits:

- Relief on Income Tax and National Insurance on the grant and exercise of the shares
- Capital gains tax payable by the employees at only 10% on the sale of the shares, calculated on the difference between the purchase price and the sale price, due to the availability of entrepreneurs relief
- ABC entitled to a reduction in corporation tax on the difference between the value of the shares sold to employees and the exercised price

The EMI plan proved a huge success for the company and key management individuals were incentivised to remain with the company and help build the value. The company was ultimately sold for £10m, higher than the original desired value.

The client said

"We were delighted with the outcome of the EMI scheme. Wilson Partners came up with a solution that supported our growth targets and also worked for our employees. They invested time to get to know our business and helped drive our successful exit."

We said

"The beauty of EMI is the flexibility that can be built in to meet the business' specific objectives. We have significant experience in implementing EMI in a diverse range of sectors to meet wide ranging commercial objectives. In the case of ABC Limited, we worked closely with the owners to devise a scheme that would suit everyone, and the end result is proof of the value of the scheme."

Steve Lawrey, Tax Director,
Wilson Partners