

Abbiss Cadres

Tax Advantaged Share Plans Company Share Option Plan ("CSOP")

BRIEFING NOTE



What is a CSOP?

A Company Share Option Plan ("CSOP") is a tax advantaged option plan that can be operated on a discretionary basis. Provided certain conditions are met, there is no charge to income tax or National Insurance contributions ("NICs") on the grant or exercise of these options.

Main features

Exercise price

The exercise price of a CSOP must be no less than the market value of the shares on the date of grant.

Limit on market value of shares

There is a limit of £30,000 on the value of shares subject to CSOP options that may be granted to, and held by, any one employee (excluding options that have already been exercised by that employee or lapsed). For these purposes, the value of shares is calculated by reference to their market value at the date of grant.

Exercise conditions

There is considerable flexibility to impose different exercise and vesting conditions on CSOP options. For example, the exercise of CSOP options may be subject to the satisfaction of performance targets selected by the company. There are also no specific requirements as to the early leaver or other early exercise provisions (although tax favourable treatment on exercise is only available in certain cases - see below).

Tax benefits

For employees

- No income tax or NICs are payable on the grant of a CSOP option.
- Provided that a CSOP option is exercised at least three years (and no later than 10 years) after the date of grant no income tax or NICs will be payable when the CSOP option is exercised.
- Options exercised by certain "good leavers" less than three years after grant will also not be subject to income tax or NICs (provided they are exercised within six months of departure).
- Options exercised early as a result of a takeover or change of control may in certain circumstances also be free of income tax and NICs.
- When the shares acquired under the CSOP option are sold, there will be a chargeable gain for capital gains tax purposes.

For employers

- Provided certain conditions are satisfied, an option holder's employing company will benefit from a corporation tax deduction on the exercise of a CSOP option equal to the difference between the market value of the shares at exercise and the exercise price paid.
- The employer may also benefit from not having to pay employer's NICs on the exercise of a CSOP option.

Key requirements

- Employees or directors who hold (or who have held in the previous twelve months) a "material interest" in the company may not participate in a CSOP if that company is a "close company". "Material interest" is, broadly, the beneficial ownership or ability to control 25% or more of the ordinary share capital or to receive 25% or more of the assets on a winding up.
- The shares must be (i) listed on a recognised stock exchange (such as the London Stock Exchange, NYSE or NASDAQ), or (ii) in an unlisted company that is not under the control of another company.
- The shares must be part of ordinary share capital, fully paid up and non-redeemable, and satisfy certain other requirements to ensure that they do not have less valuable rights compared to those held by non-employee shareholders.

Administration

CSOPs can either be established as a standalone plan, as a sub plan or schedule to an existing option plan (which is typically the approach followed by overseas companies operating a CSOP for their UK employees).

Legislative compliance

There are certain legislative requirements governing the structure of the CSOP plan and how it is operated. However, following changes made in April 2014 regarding scheme operation, it is no longer necessary to obtain prior approval from the UK tax authorities (HMRC) before granting options. Instead, companies now need to self-certify that the CSOP is compliant.

Tax reporting

Companies operating a CSOP need to register the plan with HMRC and file an online annual return by 6 July following the end of each tax year. The return will contain details of any options that have been granted and exercised, as well as certain other events affecting the options.

Share valuations

Where the relevant shares are not listed on a recognised stock exchange, it will be necessary to agree the market value of shares with HMRC on each occasion before the relevant options are granted.

Why CSOP?

For larger companies that do not meet the relevant conditions for granting Enterprise Management Incentives (EMI) options, a CSOP is the ideal way to grant tax efficient options within a relatively simple framework. Although there is the £30,000 limit on the value of CSOP options that may be granted, many companies operate a CSOP alongside a non-tax advantaged option plan to ensure that employees can enjoy the greatest possible tax advantages.

How can we help?

If you are considering implementing a CSOP, we can assist with the following:

- confirming whether you are eligible to operate a CSOP;
- drafting the plan rules and associated documentation;
- agreeing share valuations with HMRC;
- confirming compliance with HMRC requirements for the purposes of the self-certification regime; and
- drafting participant communications, including tax advice.

Our compensation and benefits services

We are independently recognised as leading experts in the design and implementation of share, phantom equity and other cash-based incentive plans for employees, executives and consultants in the UK and internationally.

A practical, multi-disciplinary approach ensures our clients receive a complete service providing fully thought through arrangements which are appropriate to their market and support the achievement of their commercial goals.

Our services range from design consulting, technical feasibility analysis, drafting and implementation to providing ongoing operational support, including advising on the impact of corporate transactions.

Our financial modelling service allows clients valuable transparency on the cash, tax and share dilution impact of proposed and adopted arrangements. We also offer share valuation services.

Client testimonials

"The team at Abbiss Cadres possess expertise that is second to none in relation to complex remuneration structures and share-based incentives that has proven invaluable to us in the execution of both IPO's and corporate transactions."

Corporate Partner, AM Law 100 firm

"Abbiss Cadres assisted Abbott Risk Consulting (ARC) Ltd in the design and implementation of an employee share scheme based on Enterprise Management Incentives (EMI). Their support was invaluable and went beyond the simple mechanics of EMI schemes. They helped us focus on our business needs and ensure the scheme we put in place would help us attract and retain staff. The scheme did just that and we have just enjoyed one of our best year's performance ever with low staff turnover and a motivated workforce. Guy Abbiss is an expert in his field and is a pleasure to deal with. I have no hesitation in recommending him and Abbiss Cadres LLP."

John Abbott, Managing Director, ARC

Abbott Risk Consulting (ARC) Ltd is an independent consultancy leading the field in the provision of consulting services and technical recruitment to the defence, transportation, marine and energy sectors.

Contact us

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