

The EMI share scheme: 4 key benefits employers need to know

Retaining top talent in an increasingly competitive labour market isn't a new challenge that UK businesses are facing. It is, however, a challenge that is becoming increasingly difficult, with more and more factors contributing to businesses' struggles. While competitive salaries and benefits are essential, more companies are exploring employee share schemes, such as EMI share schemes, as a powerful way to align interests, boost motivation, and create long-term commitment from their workforce.

What Is an Employee Share Scheme?

[Employee share scheme](#) allow employees to acquire shares in the company they work for, typically at a preferential rate or through options that vest over time. These schemes can range from all-employee plans to more selective schemes aimed at key personnel who are deemed key in driving business growth. The overarching goal is to give employees a direct financial interest in the company's long-term success.

Why Consider an Employee Share Scheme?

1. **Talent Attraction and Retention-** Top-tier talent, especially in sectors such as Technology, Software, and IT, increasingly looks beyond salary when considering job offers. Offering share equity can make your package stand out from your competitors and appeal to talent who want a share in the value they help create. By also tying part of an employee's compensation to the long-term performance of the company, share schemes can help reduce staff turnover rates and build a committed core team.
2. **Alignment of Interests-** Share schemes turn employees into stakeholders. When team members are also shareholders, their motivations tend to align more closely with the company's goals. This can help foster a culture of ownership, accountability, and performance-driven decision-making.
3. **Motivation and Productivity-** Knowing that their efforts directly impact company value can motivate employees to go the extra mile.
4. **Cash Friendly -** Especially for startups and growing businesses with limited cash flow, share schemes offer a way to attract and retain top talent without depleting their cash. Rather than offering large salaries upfront, equity-based rewards defer the payout to a future liquidity event, such as a sale of the business or a third-party investment.

Why EMI Should Be Your First Consideration

Among the various options available, the Enterprise Management Incentive ("EMI") scheme stands out as one of the most flexible and tax-efficient share schemes for qualifying UK companies and their employees.

For many private companies in the UK, the EMI scheme is arguably the most attractive share option available. Backed by the UK government, the scheme is designed specifically for smaller, high-growth companies to recruit and retain key employees in a tax-efficient manner.

4 Key Benefits of the EMI share scheme:

1. **Tax Efficiency for Employees-** Under the EMI share scheme, employees can acquire shares with significant tax advantages. If the options are granted at market value, there's typically no Income Tax or National Insurance payable when the options are exercised. Gains made on the sale of shares are subject to Capital Gains Tax ("CGT"), often at the lower 14% Business Asset Disposal Relief (formerly Entrepreneurs' Relief) rate.
2. **Corporation Tax Relief for Employers-** Companies that issue EMI options can often claim a corporation tax deduction on the difference between the market value at grant and the value at exercise. This provides an additional financial incentive for businesses to implement EMI.
3. **Flexibility and Customisation-** EMI share schemes can be tailored to suit your company's unique needs. You can decide who receives options, how many, and under what conditions (such as time-based or performance-based vesting). This makes EMI ideal for rewarding high-performers or key personnel critical to your company's success.
4. **Easy to Integrate with Exit Strategies-** EMI share scheme options are often structured to coincide with company exit events, such as a share sale or a third-party investment, making them highly attractive to employees. Everyone's goals are becoming aligned towards growing value and achieving a profitable exit.

Who qualifies for the EMI share scheme?

While EMI is highly beneficial, not every company or employee qualifies. Key requirements include:

- The company must carry on a qualifying trade (some sectors, such as banking, legal services, and property development, are excluded).
- Gross assets of the Company as of the date of granting EMI share scheme options must not exceed £30 million.
- The company must have fewer than 250 full-time equivalent employees as of the date the EMI options are granted.
- Employees must work at least 25 hours per week or 75% of their scheduled working time for the business.
- Individuals are limited to holding no more than 30% of the company's shares.

How can AAB help?

If your business is scaling and you're looking for sustainable, incentive-driven growth, now is the time to consider EMI share schemes. Not only will you build a stronger, more engaged team, but you'll also lay the foundation for a more valuable and successful business. Our team possesses a wealth of knowledge and experience in helping companies to implement and maintain successful employee share schemes.

If you would like to discuss further how implementing an employee share scheme can benefit your business, please do not hesitate to contact [Liam Hosie](#) or your usual [AAB contact](#).