Employee share ownership plans help businesses achieve their growth aspirations by attracting, retaining and motivating key talent, while releasing cash which would otherwise be tied up in higher salaries or bonuses. Flowering share plans are versatile, tax efficient arrangements which can allow employees to acquire low cost shares where HM Revenue & Customs (HMRC) approved plans are not appropriate.

**Employee share plans**

Awarding shares is a way of aligning employees’ interests to the commercial objectives of a business. While any increase in the value of shares already owned by an employee will be subject to favourable capital gains tax rates, it is often a challenge to award shares to employees in a cost effective manner.

HMRC approved share plans, such as enterprise management incentive schemes, are available, which can deliver significant tax and National Insurance contributions (NIC) savings. However, they are subject to conditions which can limit their flexibility and versatility. Flowering share plans provide an alternative solution.

**What is a flowering share plan?**

Under a flowering share plan a new class of shares is created. The shares have limited voting and capital rights when they are awarded and only 'flower' and acquire value in the event the business achieves a predetermined level of growth, known as a performance ‘hurdle’. As a result, on award the shares have a low value for tax purposes and employees can become shareholders for little or no upfront cost.

On sale, the full growth in the value of shares will be subject to favourable capital gains tax rates, which might be as low as 10% if the conditions required obtain entrepreneurs relief are satisfied.

**What are the advantages of flowering share plans?**

Shares should be inexpensive for the participants to acquire, or if awarded, the tax charge on the value of the award should be nominal. This low initial value limits the exposure of the employees if the performance hurdle is not reached and the shares do not flower.

However, if the hurdle is met and shares flower, the increase in share value will be subject to favourable capital gains tax rates. Flowering shares can deliver business growth and retain key talent as shares only deliver value if the employees remain with the company and help it achieve its growth target.

**Key questions:**

- do you want to grow your business to maximise its value at exit?
- would you like to incentivise key employees by awarding shares to them in a tax efficient manner, where it is not possible to qualify for an HMRC approved plan, or where more flexibility is required?
- would you like to award low cost shares and lock in the value of shares held by existing shareholders?

Furthermore, dilution of the existing shareholders’ stake in the business is delayed until the hurdle is met, as shares do not have full value until they flower. The plan can also be structured so that participants have only a share in the growth in value they create (ie from the date of award).

Flowering share plans are flexible and can be adapted to a variety of situations. While most commonly implemented by private companies, they can be introduced to AIM listed companies and can also be effective in jurisdictions outside the UK.

**How is share value realised?**

In the event the flowering shares attain value, this can be extracted in a variety of ways, based on the circumstances of the business. For example, meeting the performance target may facilitate the sale of the business. Alternatively, the company might establish its own market for the shares (using a trust for example) or the success of the company may result in shares being listed on a stock exchange.

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