



Employee share schemes – a guide for startups



Sharing equity with employees is a way to help grow a business.

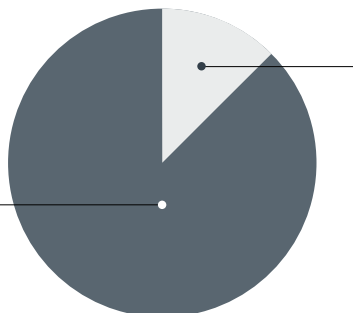
There are a number of other benefits to setting up a company share scheme, but as a founder of a startup, growth will most likely be your key motivator. We discuss how setting up a share scheme early on can drive the growth of a business.

What is a share scheme?

A share scheme is a way of founders sharing equity with employees. Equity in a company means ownership – anyone who holds shares in a company owns part of the company (and therefore its assets).



Founders

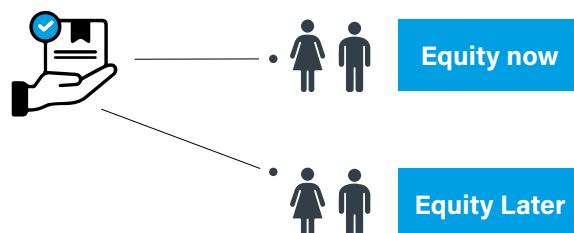


Employees

There are many different forms of share scheme, but they all work in one of two ways:

Equity now – employees are given actual shares in the company now

Equity later – employees are granted an option which gives them a right to purchase shares in the company at a certain point in the future (at an agreed price)



+44 (0)1276 686 222



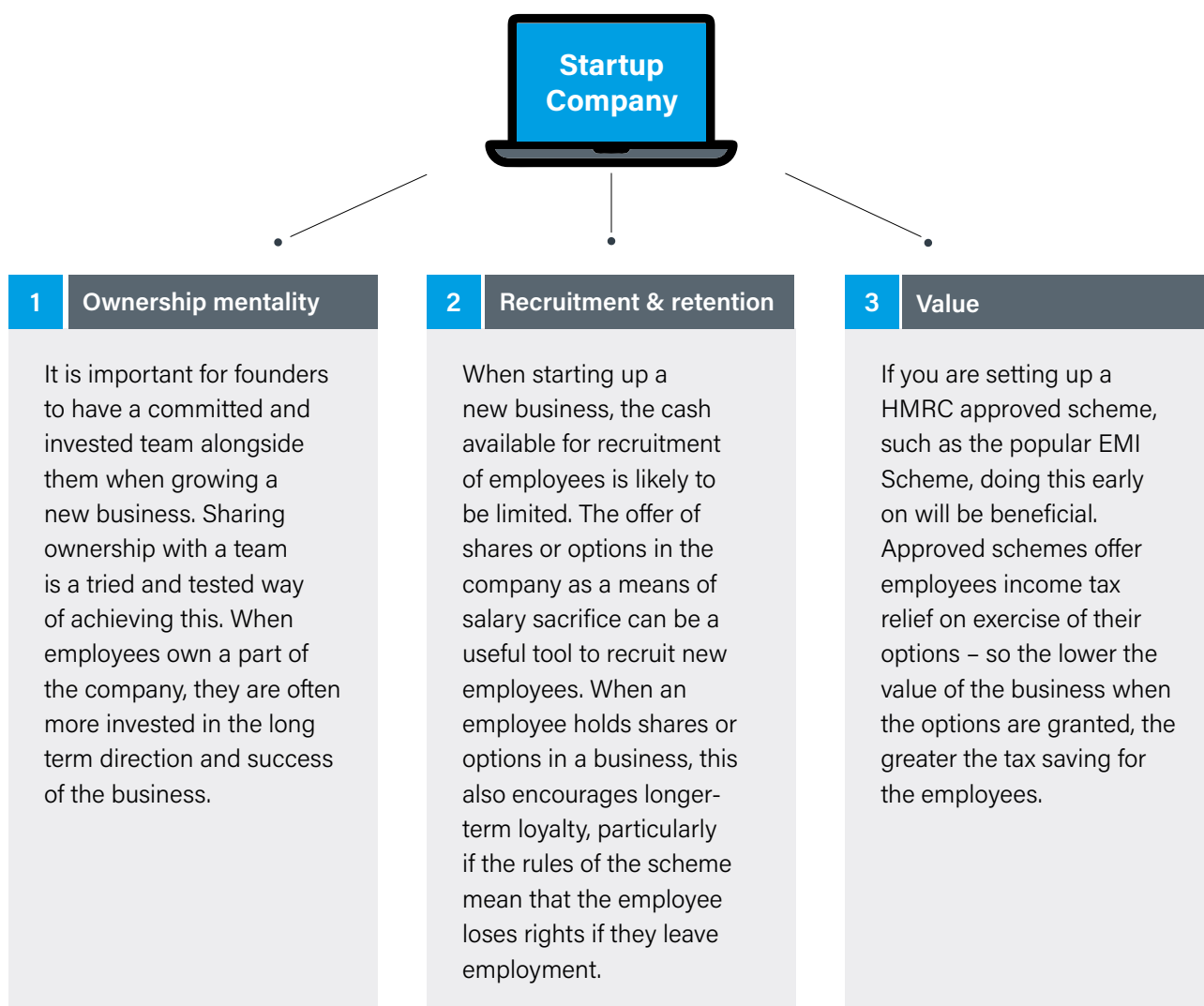
info@herrington-carmichael.com



www.herrington-carmichael.com

Why should startups offer equity?

Share schemes can be equally, if not more, beneficial to startups with few employees than to large companies with many employees. Setting up a share scheme early on can assist with:



Which share scheme is best for a startup?

There is a typical “lawyer’s answer” to this question, which is – it depends! The scheme that is best suited to a company depends on the founders’ motivations, which could range from tax effectiveness, affordability or security for their own interests. Some of the HMRC approved schemes also have limitations, such as certain trades not being eligible and limitations on the number of employees the company can have.

We would recommend that you seek professional advice to explore the various schemes and work out which is best for your business.

Types of share scheme

Enterprise Management Incentives (EMIs)

Company Share Option Plans (CSOPs)

Save As You Earn (SAYE)

Share Incentive Plans (SIPs)

Growth Shares

Unapproved Options



+44 (0)1276 686 222



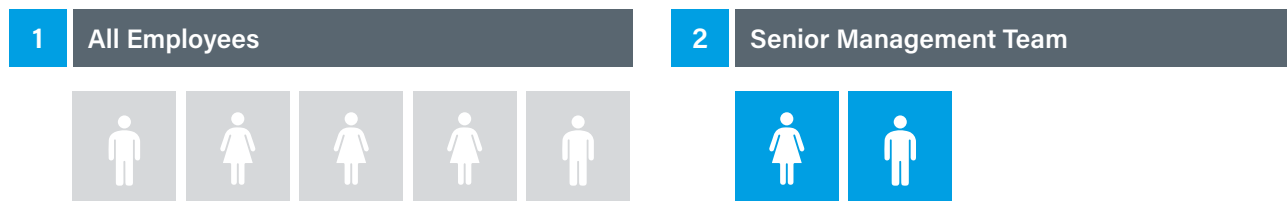
info@herrington-carmichael.com



www.herrington-carmichael.com

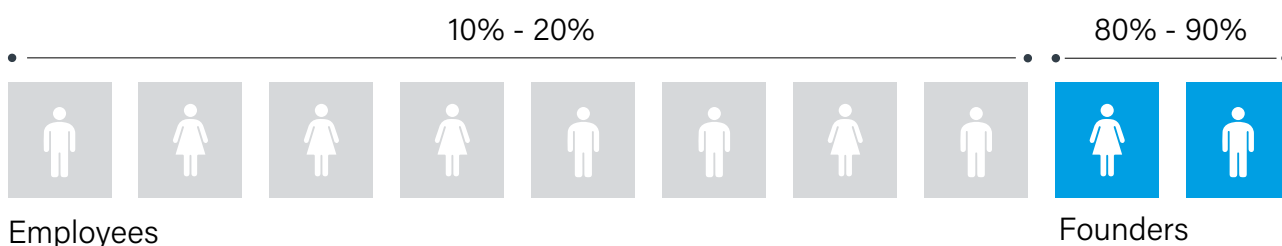
Who should benefit from a share scheme?

A common misconception with share schemes is that they have to be offered to all employees. However, the majority of share schemes do not need to be for the whole company – instead they are very flexible and allow founders to pick and choose the employees they want to reward and / or retain, which means you can have a scheme for all employees or you could set up to apply to just the senior management team.



How much equity should a startup set aside?

This is a decision for the founders of the business to make and will depend on how much equity they want to retain for the future. Founders will also need to consider the requirements of any current or potential external investors such as VCs. Typically, we see smaller businesses set an option pool of between 10-20%.



How can we help?

If you are a founder of a startup or an early-stage business and are thinking about sharing equity with your team, we can help you explore the different options available and implement your chosen scheme. If you would like to discuss further, please contact Yavan Brar and Emma Roper in our Corporate team.



Yavan Brar
Managing Partner and Head of
Corporate and Commercial Law
0118 989 9713
yavan.brar@herrington-carmichael.com



Emma Roper
Solicitor, Corporate and Commercial
01276 854 903
emma.roper@herrington-carmichael.com



Legal 500 rankings: Herrington Carmichael is a Leading firm with Alistair McArthur is a Leading Individual. Herrington Carmichael has many recommended lawyers listed at <https://www.legal500.com>



+44 (0)1276 686 222



info@herrington-carmichael.com



www.herrington-carmichael.com