

# **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).



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)





## 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:



#### Ownership mentality

It is important for founders to have a committed and invested team alongside them when growing a new business. Sharing ownership with a team is a tried and tested way of achieving this. When employees own a part of the company, they are often more invested in the long term direction and success of the business.

#### 2 Recruitment & retention

When starting up a new business, the cash available for recruitment of employees is likely to be limited. The offer of shares or options in the company as a means of salary sacrifice can be a useful tool to recruit new employees. When an employee holds shares or options in a business, this also encourages longerterm loyalty, particularly if the rules of the scheme mean that the employee loses rights if they leave employment.

#### 3 Value

If you are setting up a HMRC approved scheme, such as the popular EMI Scheme, doing this early on will be beneficial. Approved schemes offer employees income tax relief on exercise of their options – so the lower the value of the business when the options are granted, the greater the tax saving for the employees.

## 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
Unappoved Options





#### 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 to discuss further, please contact Yavan Brar and Emma Roper in our Corporate team.



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