
Company Share Option Plan (CSOP)

The Company Share Option Plan (CSOP) allows UK employees to participate in share options without having to pay income tax or National Insurance (NI) on their option gains.

How does it work?

Imagine that:

- Your company grants an employee an option, under which – after three years – they can buy 10,000 shares at today's share price of £3 per share.
- Three years later the share price has increased to £5. The person decides to exercise their option in full, paying £30,000 for shares that are now worth £50,000.

Normally, an individual would have to pay income tax and possibly NI on the £20,000 gain (even though it may only be a paper gain if they haven't yet sold the shares). However, if the option is a CSOP, they won't have to pay tax and possibly NI contributions, so long as (normally) at least three years and no more than ten years pass before they exercise the option.

So is it completely tax-free?

No, if the staff member sells the shares – which they might do either immediately or after some time – they will then have to pay capital gains tax (CGT) on any gain they've made up to the point of sale.

But it will often be much better to pay CGT than income tax or NI because:

- There is an additional tax-free slice – £9,600 for 2008-2009.
- CGT is payable at a flat rate of 18%.
- Unlike income tax or NI, CGT is due only when the employee sells the shares, and so when the employee has some cash to pay their tax bill.

Are there any limits?

No employee may be granted CSOP options over shares worth more than £30,000. So in our example the individual could not immediately be granted any more options.

What happens to leavers?

Normally, if CSOP options are exercised within three years of grant, the employee will pay income tax and possibly NI contributions on their option gains. However, this does not apply to employees leaving for redundancy, injury, disability or retirement.

Do all employees have to be offered CSOP options?

Unlike the SIP and SAYE options, CSOP options do not have to be offered to all employees, allowing the company to select employees to participate.

Benefits for the company

As with SAYE options, apart from the potential business benefits of a carefully designed plan, any gains enjoyed by employees can be treated as an expense of the employer company for corporation tax purposes.

Enterprise Management Incentive (EMI)

The Enterprise Management Incentive (EMI) is a share option plan targeted at smaller companies. It is widely considered to be the most tax efficient share plan available in the UK. Like SAYE and Company Share Option Plans, an EMI is a share option plan.

Companies who qualify

- EMI is for smaller companies only – with gross assets of no more than £30 million and fewer than 250 employees.
- Companies running certain businesses are excluded.
- The company must be independent – it must not be a subsidiary of, or controlled by another company (a similar rule also applies to SAYE and CSOP).
- The company must operate wholly or mainly in the UK.

Do employees qualify?

Any employee who is to participate must work for the company for at least 25 hours a week, or if less, for at least 75% of their working time. Anyone holding 30% or more of your company's ordinary shares is not eligible.

Are there any limits?

- Options may not be granted over shares with a total market value of more than £3 million (measured at the time each option is granted).
- There is a limit of £120,000 for each employee.