



## ADDING VALUE THROUGH THE PLUS FACTOR

# Share Incentive Arrangements

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## Are shares still a carrot on a stick for employees?

### Retaining key employees can maximise the value of your business

Business owners often overlook the value key employees contribute to the company's worth when growing or building a successful business. Securing the long term commitment of key employees is often essential to ensure the Company's ongoing profitability and growth, with a view to taking a further step on the path to an ultimate exit from the business.

Allowing key employees to participate in the ownership of the business is one way to achieve this by means of a share incentive arrangement. This could involve the issue of shares, share options or phantom shares or a combination of these. In addition to securing their long term commitment to the business, this also allows key employees to realise some of the value they have brought to the business.

### Why a share incentive arrangement?

Share incentives provide an effective means of attracting, retaining and motivating key employees by offering some or all of the following benefits: -

- ⊕ With a genuine stake in the business, there is an added incentive to ensure the business grows;
- ⊕ A sense of ownership creates a bond between the company and the key employees;
- ⊕ With any share entitlements being forfeited if an employee leaves, the provision of company shares can be an employee retention tool;
- ⊕ Reduces the time and costs of replacing key employees;

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- ⊕ Arrangements can be designed to take effect only when the company is sold. This means there will, in practice, never be minority shareholders with voting power prior to the company disposal;
- ⊕ A future reward is provided to the employee linked to the value the key employee has brought to the business with the reward taxed at a lower rate than that applicable to salary or bonus;
- ⊕ The company does not require to accumulate the cash to satisfy the reward until a future point, such as on a company disposal.

### AAB Assistance

As a result of recent changes to tax legislation, AAB's share incentive specialists have been increasingly called on to:

- ⊕ Consider business owners' strategies and advise on the right share incentive arrangement to assist in meeting their objectives; this normally involves retaining key staff in areas where there is a shortage of skilled resources;
- ⊕ Review existing share incentive arrangements to ensure they still provide the intended tax favoured incentives for key employees and advise on changes to such arrangements to again secure key employees;
- ⊕ Prepare company valuations as an integral part of implementing share incentive arrangements;
- ⊕ Consider proposed strategies for rewarding key employees confirming whether these are subject to capital gains tax rather than higher income taxes and NIC costs.
- ⊕ Communicate with employees so that they fully understand the personal tax impact of share incentive arrangements. Help companies implement and administer new/alternative arrangements with minimum disruption.

Should you wish to consider share incentive arrangements further, or discuss whether an existing arrangement continues to provide key employees with the intended rewards, please do not hesitate to contact our Steven Fraser ([steven.fraser@aab.co.uk](mailto:steven.fraser@aab.co.uk)) or Steve Mitchell ([steve.mitchell@aab.co.uk](mailto:steve.mitchell@aab.co.uk)).



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