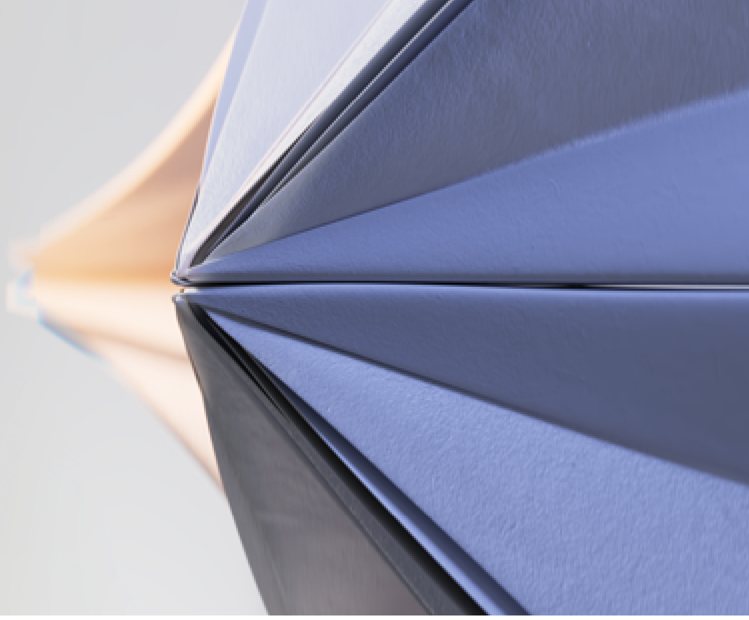
HaysMac

Growth Shares



Growth shares (otherwise known as flowering shares or hurdle shares) provide an opportunity for employees to participate in the growth in value of their company.

They are a class of shares with specific rights that are often used in employee incentive planning.

What are growth shares?

A growth share delivers value to the employee if the value of the company increases above a set 'hurdle' or target. Returns to employees from growth shares are subject to Capital Gains Tax (CGT).

Growth shares typically have no dividend or voting rights and the existing shareholders retain the value already built up in the business.

What are the benefits of growth shares?

Growth shares are relatively flexible and can accommodate a wide range of commercial objectives.

- Growth shares provide a commercial incentive to key employees or senior executives to help drive the value of the company and push it to an exit. Given the lack of voting and dividend rights, the growth shares are commercially comparable to share options. However, they can be more tax efficient.
- If the hurdle is set in excess of the company's current value, then the upfront buy in cost is typically low and the growth in share value is subject to CGT.
- However, the CGT rate is more attractive than if the equivalent benefit was provided as a salary, which would be subject to Income Tax treatment (top rate CGT at 24% vs Income Tax at 45% plus National Insurance contributions).

When are growth shares used?

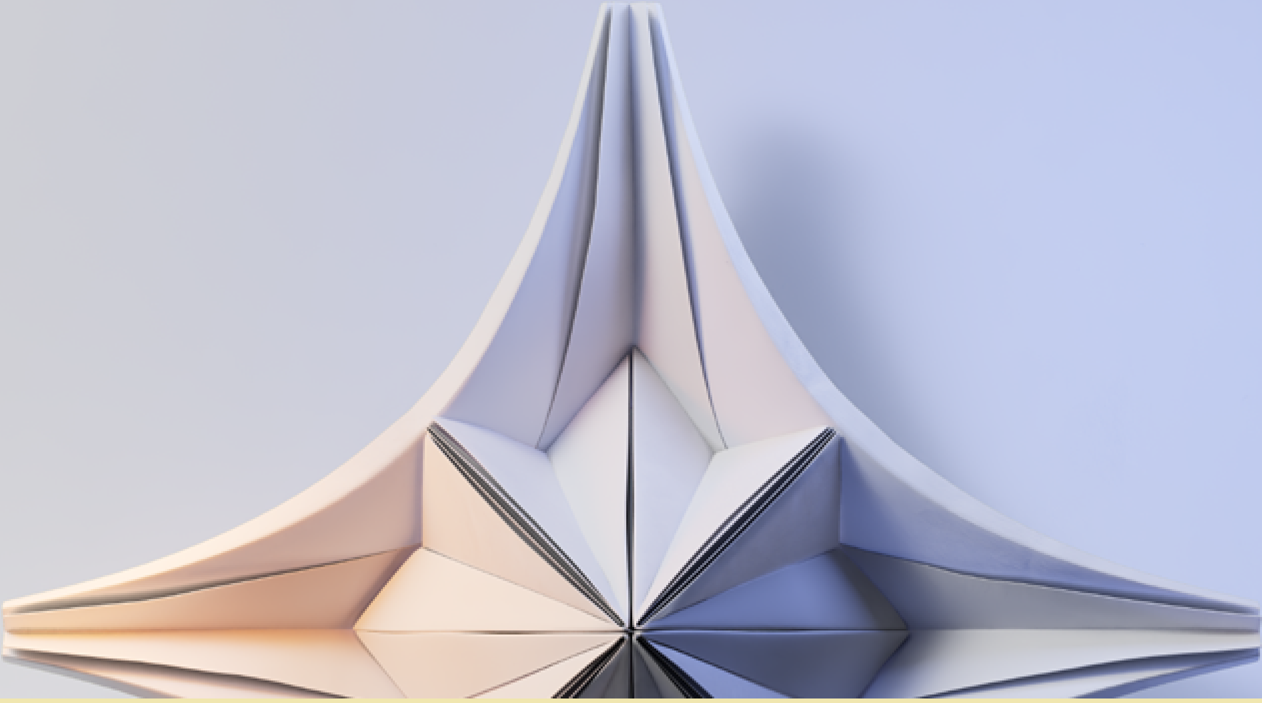
Growth shares are most commonly used by private companies, including scale-ups, where there are substantial growth prospects. Growth shares are typically offered to key employees where the company is heading towards a longer-term exit but cannot implement Enterprise Management Incentives (EMI) or other HMRC 'approved' plans. Growth shares may then typically be in use at:

- Subsidiary companies
- Companies that have outgrown the 250 employee or £30m gross asset limits for EMI
- Companies that operate in EMI excluded trades such as insurance, hotel operation or financing

How can HaysMac help you?

- Advice to ensure growth shares is the right scheme for you
- Designing growth share rights
- Working with lawyers to draft rights into Articles of Association and subscription agreements
- Producing a valuation report advising on our opinion of the market of the growth shares for tax purposes
- Producing participant guides setting out the economic and tax position of the growth shares from the participants' perspective
- Dealing with all tax elections and compliance forms that need to be submitted to HMRC

If you wish to discuss in further detail, then please do not hesitate to contact David Bareham overleaf on the details below.



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