Summer 2026

Tax Navigator

Staff Incentivisation Edition

HaysMac

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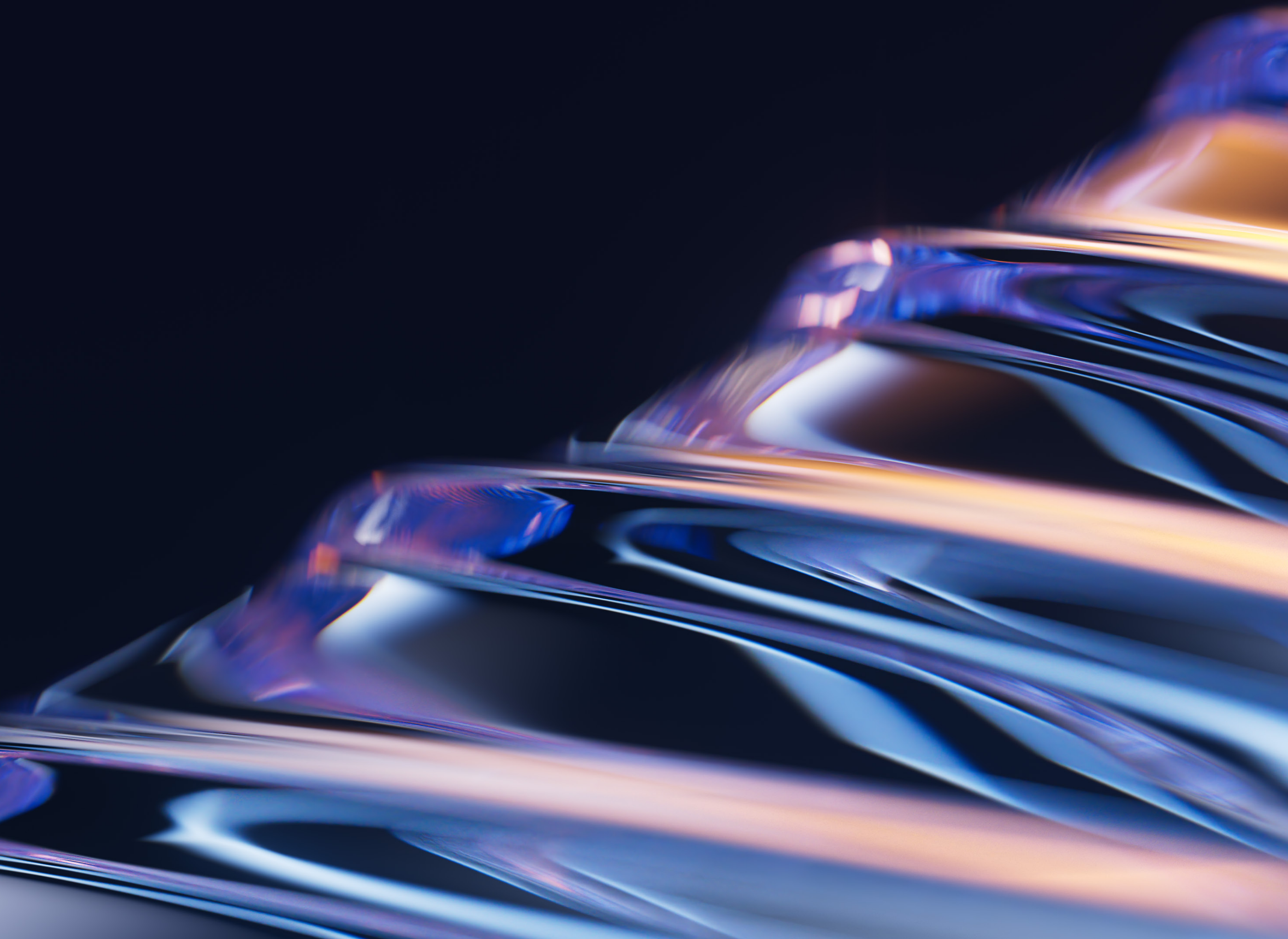

Welcome from the editor

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The Summer edition of Tax Navigator covers a topic that I know is always on the minds of people who run businesses: staff incentivisation.

I am delighted to share articles from two experts in this area; Nick Bustin, Director and Head of Employment Tax, and Dave Bareham, Partner, who is widely recognised for his deep expertise in share schemes and employee incentives.

In this edition, Nick and Dave have combined their expertise to set out how companies can best incentivise their staff in a tax efficient manner, thus setting up the business for greater success.

The newsletter also contains links to other articles that the HaysMac tax team has released recently, ensuring you are best equipped to tackle the ever-changing tax landscape.

The next edition of Tax Navigator will follow the Autumn Budget, and we wait patiently to learn who will be Chancellor and what their priorities will be. Looking ahead, I think if one thing is certain it is that the incoming Prime Minister will look to embed their agenda into the national imagination, and it's anyone's guess as to what that could look like in practice. An apt topic of discussion for Tax Navigator.

Employee incentives – delivering value the right way

A well-planned employee incentive plan can unlock huge value for an employer, whilst providing employees with a tax efficient wrapper to share in the company's success.

In this article, we explore why it is so important to correctly plan an employe incentive scheme, selecting the right scheme and ongoing maintenance of the scheme.

Why forward planning is so important

A well incentive management team is crucial to a business's success. Investors will expect to see a pool of equity assigned to employee incentives.

A well-executed tax-efficient incentive plan can deliver upside to employees at capital gains tax rates (24% or potentially as low as 18%). Compared to delivering cash at PAYE/NIC rates (combines rates of c60%), the tax savings can prove significant.

Selecting the right scheme

A key decision will be to select the most appropriate incentive scheme(s). In some cases this may be clear but in other cases the decision can be more nuanced. Some of the key schemes to consider are set out below.

EMI options

The most tax efficient scheme. EMI options can deliver gains to full-time employees at CGT rates, as low as 18% if held for up to 2 years. EMI options are flexible and can be structured as 'exit only', time-based vesting (often with a cliff) or include performance conditions.

There are numerous conditions for the company, the employee and the option documentation, to qualify as EMI options.

Some of the key conditions are as follows:

- The company must be independent (not controlled by another company)
- The company must not breach size limits (£120m gross assets or 500 employees)
- The option holder must be a full-time employee
- The option must be in writing and reported to HMRC
- Limit of £250k share under option per employee (£6m limit total)

It is important to review qualifying status in advance of implementing an EMI scheme. If in doubt, HMRC operates an advanced assurance facility to allow the EMI qualification point to be cleared.

If EMI is available, it tends to be the most favourable scheme to operate. Other schemes may however be relevant in some cases such as the following:

- If the company is not EMI qualifying
- If some of the participants aren't full-time employees

CSOP

CSOP can be a strong alternative where either the company or the employee doesn't qualify for EMI. CSOP is another employee option that allows for gains to be delivered at CGT rates (albeit usually at 24%). The limit on shares under CSOP option is £60k (compared with £250k for EMI) and the tax benefits generally rely on the option being held for at least 3 years. The qualifying conditions for CSOP are however significantly less onerous than for EMI. CSOP might therefore be used in the following circumstances:

- Companies that exceed the EMI size limits
- Companies looking to grant options to part-time employees

Growth shares

Growth shares can be used either in conjunction with EMI/CSOP or as an alternative.

Growth shares are a separate class of share that have reduced rights and only achieve a payout on sale of the company, to the extent that exit value exceeds a set threshold. The value of growth shares is typically a fraction of the value of ordinary shares. These growth shares can then have EMI or CSOP options granted over them, and due to their low value can pack more equity into the EMI/CSOP limits (£250k/£60k).

Alternatively, if EMI or CSOP are unavailable (say due to the company not being independent), growth shares can be issued up-front to employees. Provided 'section 431 elections' are entered into, growth in value should again be taxed to CGT. If the valuation is low, the buy-in price can be minimized. The valuation of growth shares can be complex, though the benefits of using growth shares are that there are no qualifying conditions or limits on use.

Getting the scheme implemented

Choosing the right scheme(s) is important. Once chosen it is important to design and implement the scheme in good time.

A common mistake is for founders to promise equity to employees but delay implementing. Whilst it should be possible to backdate vesting conditions, it is not possible to backdate the valuation to when the award was promised. Hence, delays in implementation can erode tax advantages if the share valuation increases during this time.

If delayed until shortly before a sale of the business, it is likely that the planning mentioned above won't be effective, and awards will be subject to PAYE and NIC in full.

Ongoing maintenance

Once the scheme(s) has been implemented, it is important to comply with HMRC reporting requirements and to monitor any proposed changes in trading activities and group structure, to ensure the scheme retains its tax advantages.

For example, EMI tax advantages can be lost if the group inserts a new holding company and doesn't take action to flip-up the EMI options into said holding company. Other events such as exceeding size limits or setting up certain types of joint ventures can prevent the company for granting further EMI options (though shouldn't affect already granted options). Changes in share capital such as creating a new share class or amending exiting class rights can also affect the tax position of EMI, CSOP or even growth shares.

When considering changes to group activities or structure advice should be sought to ensure such changes don't adversely affect employee incentives.

In summary

- Seek advice to select the most appropriate incentive scheme(s).
- Once schemes are selected and terms agreed, implement as soon as reasonably possible – don't delay.
- Consider effect on incentives where group activities or structure is set to change. Seek advice if in doubt.

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Rewarding staff the right way

Navigating PAYE, Income Tax and NIC for Employee Awards

Retaining and motivating staff has become a strategic priority for employers across the UK.

As organisations look for ways to recognise the contributions made by their employees, whether through cash bonuses, small gifts, long service awards or innovative suggestion schemes, the tax and National Insurance contribution (NIC) implications can be surprisingly complex. Getting the arrangements right helps to shape how employees perceive the value of the reward but also ensures the employer is fulfilling their compliance reporting obligations. A poorly structured award can leave staff with an unexpected tax bill, undermining the goodwill the employer intended to create.

This article sets out the key PAYE, income tax and NIC considerations for common staff awards. It highlights the exemptions available and explains when employers can make use of a PAYE Settlement Agreement (PSA) to 'ring-fence' the liabilities away from the employee, so they (the employee) can enjoy the full value of the award.

Bonus Payments: The Starting Point for PAYE and NIC

Cash bonuses, whether annual performance bonuses, ad hoc recognition payments or retention incentives are the most straightforward from a tax perspective. They are treated as earnings and must be processed through payroll at the point the employee becomes entitled to the payment.

Point of Entitlement Matters

The obligation to operate PAYE arises not when the bonus is paid, but when the employee becomes entitled to it. This can create timing issues:

- If entitlement arises before payroll cut off, PAYE must be operated in that period even if payment is made later.
- If entitlement is conditional (e.g., subject to board approval), PAYE applies only once the condition is satisfied.
- Deferred bonuses remain taxable when paid, but NIC may depend on whether the payment counts as "earnings" at the time of entitlement.

Employers should ensure bonus schemes clearly define when the employee is entitled to receive the bonus to avoid accidental PAYE failures.

NIC Treatment

Cash bonuses attract Class 1 NIC for both employer and employee. There is no NIC exemption for cash awards, and NIC must be accounted for through payroll in the same period as PAYE.

Non Cash Awards: When Benefits Become Taxable

Non cash awards, such as gift vouchers, hampers, event tickets or small gifts, are typically taxable benefits, which will need to be reported to HMRC, unless an exemption can be applied. The tax point is usually when the benefit is provided, not when it is offered.

Reporting Requirements

Where a benefit is taxable, employers must either:

- Report it on a P11D and pay Class 1A NIC, or
- Include it in a PSA so the employer settles the tax and NIC on behalf of employees.

The choice depends on the nature of the award, the number of employees affected, and whether the employer wants to shield employees from tax liabilities.

What exemptions are available to help deliver tax efficient rewards?

Several statutory exemptions allow employers to provide certain awards without triggering tax or NIC. These can be invaluable for staff retention and engagement when used correctly.

Trivial Benefits Exemption

The trivial benefits exemption allows employers to provide benefits costing £50 or less without tax or NIC, provided:

- The benefit is not cash or a cash voucher.
- It is not a reward for services.
- It is not part of a contractual entitlement.
- For directors of close companies, the annual cap of £300 applies.

This exemption is ideal for small gifts, seasonal treats, team building tokens or spontaneous recognition. Employers should ensure the benefit is genuinely non contractual and not linked to performance. However, care needs to be taken that where employers provide employees with a benefit on a regular basis, HMRC hold the view this could create a legitimate expectation the benefit will be provided, that expectation may amount to a contractual entitlement. Where this occurs, HMRC are of the opinion the trivial benefits exemption does not apply.

Suggestion Scheme Awards

Awards under approved suggestion schemes can be tax free if they meet strict criteria:

- The suggestion must be outside the employee's normal duties.
- The scheme must be formally structured and open to all employees.

Awards are exempt up to £5,000 for "encouragement awards" and £25 for "financial benefit awards".

These schemes can support innovation and engagement, but employers must ensure the scheme structured carefully to avoid unexpected tax liabilities.

Long Service Awards

Long service awards can be exempt where the following conditions are met:

- The employee has at least 20 years' service.
- No similar award has been given in the previous 10 years.
- The award is non cash.
- The cost does not exceed £50 per year of service.

This exemption is particularly valuable, allowing employers to recognise loyalty in a tax efficient way. However, it is important to bear in mind that to access the exemption, the award must be in a non-cash, something which is often overlooked.

When to consider a PAYE Settlement Agreement (PSA)

A PSA allows employers to settle the income tax and NIC on certain benefits on behalf of employees. This can significantly enhance the perceived value of small awards, as employees do not face personal tax charges.

However, the PSA can only be used where one of the following conditions are met:

- The benefit is minor in nature
- The benefit is provided on an irregular basis
- Impracticable, this is particularly helpful where it is difficult to allocate to individual employees

Common examples of the benefits which employers include within a PSA includes:

- Gifts exceeding the trivial benefits limit.
- Staff parties or social events not covered by the annual function exemption.
- Small recognition awards.
- Non cash gifts for special occasions.

Why Use a PSA?

The use of a PSA does ensure he resulting tax and NIC liabilities arising from any gift or award sits with the employer. In doing so it helps, in part to:

- Improve employee experience by removing tax burdens.
- Simplify administration for employers.
- Provide certainty over tax treatment.
- Support reward strategies by ensuring employees receive the full value of the award.

However, employers need to be aware that using a PSA can be expensive owing to the cost of grossing up the tax and NIC due, which needs to be balanced against the goodwill generated by providing the benefits in the first place.

PAYE Settlement Agreement are under-review

HMRC has launched a Call for Evidence regarding PSAs. The review seeks to gather information on how employers use PSAs in practice to settle the tax and NIC liabilities on minor, irregular and impractical benefits.

Areas HMRC are particularly interested in concerns what employers think about when using their PSA and ways to reduce the administrative burden. However, it is not a proposal to change who benefits and expenses are taxed or the exemptions considered in this article.

Conclusion

Employers need to consider the best ways they can motivate their staff. Often it is the smaller ticket items which can have the greatest impact, acknowledging a good job done by a team member, having simple but well thought out process can prove to be highly motivating and aid staff retention.

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Tax insights & Opinion

Investor tax reporting is becoming more connected. Are your processes keeping up?

As reporting obligations become more complex, many fund managers are finding that the real challenge isn't technical compliance – it's managing the growing web of providers, systems and stakeholders involved. From Reporting Fund Status and FATCA/CRS to US investor reporting and cross-border disclosures, overlapping requirements can create inefficiencies, duplicated effort and operational risk.

In this article, we explore the warning signs that your reporting framework may need attention, three key questions every business should ask, and how a more joined-up approach can help reduce complexity and free up valuable management time.

Read more

Mind the NIC Gap

Could a simple HMRC admin issue affect your State Pension entitlement? For self-employed individuals, partners and LLP members, National Insurance Contributions (NICs) play a vital role in building entitlement to the State Pension. Yet errors in HMRC's registration process can sometimes mean contributions aren't correctly credited, even when tax returns have been filed.

In this below, we explain why checking your NIC record matters, how gaps can arise, and the simple steps you can take through your HMRC Personal Tax Account to ensure your contribution history is accurate and your future pension entitlement remains protected.

Read more

HMRC Confirms Phased Introduction of Mandatory Payrolling for Benefits in Kind

Mandatory payrolling of benefits is coming – are you ready? HMRC has confirmed a phased introduction of mandatory payrolling for Benefits in Kind (BiKs), marking one of the most significant changes to benefit reporting in recent years. From April 2027, employers will be required to report certain benefits, including company cars and medical benefits, in real time through payroll, with most remaining benefits following in April 2028. To outline what is changing, we have drafted the key dates to be aware of, and the practical steps employers should take now to prepare their payroll systems, processes and employees for the transition.

Read more

International partners, local problems: Are you exposed?

Many partnerships now have members working overseas, whether as part of an expansion strategy or simply due to evolving working patterns. Yet different countries can take very different views on how LLPs should be taxed, creating complexities around Permanent Establishments, profit allocation and local reporting obligations.

Click the link below to explore where these risks typically arise, why they are often overlooked, and the practical steps LLPs can take to manage their exposure and support international growth with confidence.

Read more

Transitioning from Sole Trader to Partnership: Key Tax Considerations for UK Businesses

Taking on a partner can unlock new opportunities, spread responsibility and support the next stage of your business journey. However, the transition involves more than simply sharing ownership. Changes to tax reporting, National Insurance, VAT and business structures all need careful consideration.

If this strikes a chord, read our articles which highlights the practical steps business owners should take before making the move and explains how good planning can help avoid costly surprises further down the line.advice can protect your wealth, your plans and your peace of mind.

Read more

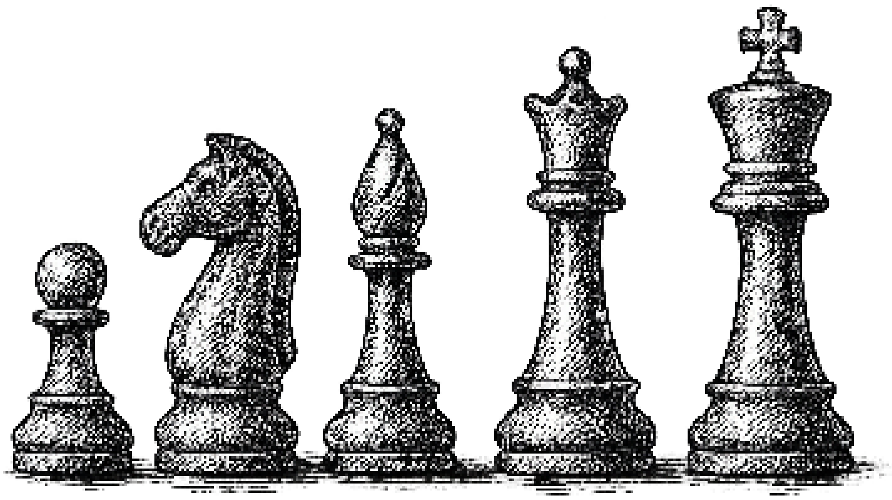
Preparing for exit: Why early planning matters

When it comes to business exits, preparation creates options.

Whether an exit is approaching or remains a long-term ambition, businesses that understand their tax position early are often better placed to maximise value and avoid surprises during due diligence. A proactive review can uncover hidden risks, strengthen buyer confidence and provide time to address issues before negotiations begin.

We examine what tax exit readiness looks like in practice, the challenges businesses commonly face, and why early planning can make a material difference to the outcome of a transaction.

Read more



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