

# Key Employee Engagement Programme



What we know so far...

Céad Míle Fáilte Romhat Go Léir!!



# Housekeeping

- Please note the emergency exits
- Mobile phones on silent please
- All feedback grateful accepted..... as long as it's positive!
- Slides will be available for download from [www.ipsa.ie](http://www.ipsa.ie) tomorrow
- Twitter hashtag #KEEPire
  - @IPSA\_ie

# Speakers today



Gill Brennan  
- IPSA CEO



Stephanie Bowe  
– Chair IPSA Private Company Committee & Tax Director EY



Gemma Jacobsen  
– Vice-chair Private Company Committee & Tax Director KPMG

# Seminar Outline

- Purpose of KEEP
- Proposed functionality – how it will work?
- Technical Details – as they currently stand
  - SME Definition
  - What sectors can use
  - What sectors are we looking clarification on
  - How it works
  - Limits as the currently stand
- How it works in the UK
- Benefit of EMI scheme to UK economy
- Potential Benefit of KEEP to Irish economy
- Current challenges with Irish KEEP
- Suggested Solutions
- Over to you... your comments and suggestions

# KEEP – its purpose

- First – what is a share option?
- Announced Budget 2018
- Key Employee Engagement Programme
- SME support
- Attract & Retain Key Employees
- Financial incentive linked to success of company
- Advantageous Tax Treatment of Share Options

# How it will work

- SME will grant share option to employee
- Employee exercises share option
- Gain arising on exercise exempt from income tax, USC and PRSI
- Gain subject to CGT (33%) on disposal of shares

# Technical Details

## Excluded activities

- Adventures/concerns in nature of trade
- Dealing in commodities/futures in shares/securities/other financial assets
- Financial activities
- Professional services companies
- Dealing in or developing land
- Building and construction
- Forestry
- Operations in coal industry/steel and ship building sectors

# Technical Details

## Qualifying company

- Incorporated and resident in Ireland or incorporated and resident in EEA State and has branch/agency in Ireland
- Direct holding companies
- Qualifying trade
- Unquoted or quoted on Enterprise Securities Market or similar, and is not a company in difficulty
- SME
- Total market value of issued but unexercised share options does not exceed €3M
- Adheres to reporting requirements

# Technical Details

## Qualifying individual

- Full time director or employee
- Working at least 30 hours per week
- Employment capable of lasting at least 12 months from date of grant
- Must not hold more than 15% of share capital

# Technical Details

## Qualifying share options

- Ordinary shares
- Option price at date of grant = at least MV of share at date of grant
- Written contract
- Total market value of share options does not exceed
  - €100,000 in any one year
  - €250,000 over 3 years
  - 50% of annual remuneration of individual
- Share Option held for minimum one year and exercised within 10 years of date of grant

# UK Version of KEEP

- Enterprise Management Incentive Scheme (EMI)
- Participation restricted to full time employees (those working for 25 hours per week or, if less, 75% of their working time)
- The total value of shares in a company over which unexercised options exist cannot exceed £3 million
- Each employee may hold options over shares worth no more than £250,000 at the time of grant and may hold no more than 30% of the company's share capital
- The company granting the options, or the group of which it is a part, must have gross assets of no more than £30 million and less than 250 employees
- The company must carry on a qualifying trade;
- The most common excluded trades are:
  - Dealing in land, commodities, shares or other financial instruments
  - Financial activities
  - Leasing or letting assets on hire
  - Providing legal or accountancy services
  - Property development
  - Farming or market gardening
  - Operation or managing hotels, guest houses, hostels, nursing homes or residential care homes.

# How UK EMI Benefits UK Economy

- Introduced in UK Finance Act 2000
- Grown to be the most widely implemented HMRC backed incentive arrangement (over 85% of all HMRC tax favoured share plans are EMIs) with significant tax breaks and flexibility on offer
- As of March 2016
  - 2,900+ companies were participating
  - 23,000 employees granted options
  - 5,000 had exercised their options
  - 32% increase in value of exercised options
  - Realised total gain of approx. £160,000,000\*
- Scheme has been running for 17 years
- No plans to change it – need to fix given state aid over
- Est. employee costs to UK exchequer annually = £90m
- Est. overall gain for UK exchequer annually,
  - ✓ Increased Corporation Tax
  - ✓ Increased CGT
  - ✓ Increased VAT receipts
  - ✓ Increased economic activity overall

*\* Based on options granted in 2012-13 and a 3 year vesting period – options then exercised in 2015-16*

# A note on employee share ownership

“Firms and establishments that use shared compensation tend to outperform other firms and establishments in productivity and financial performance.”

*Shared Modes of Compensation and Firm Performance U.K. Evidence, Conyon, M. & Freeman, Richard B., Seeking a Premier Economy: The Economic Effects of British Economic Reforms, 1980-2000, National Bureau of Economic Research (2004)*

“Conventional companies would produce more with their current levels of employment and capital if they behaved like employee-owned firms.”

*What do we really know about worker co-operatives?, Perotin, Virginie., Seeking a Premier Economy: The Economic Effects of British Economic Reforms, 1980-2000, National Bureau of Economic Research (2004)*

Firms utilising the employee share ownership model, keep more profit in their firms than businesses not using the employee share ownership model

*Zevi, Alberto, “Il finanziamento delle co-operative,” [The financing of co-operatives] in E Mazzoli and S. Zamagni, Verso una nuova storia della cooperazione [Towards a new history of cooperation], Bologna (Italy), Il Mulino, 2005, 293–332.*

# Potential Benefit of KEEP to Irish economy

- ✓ More profit in firms = more corporation tax
- ✓ Lessens CT dependency on a few large corporations
- ✓ Increases exchequer figures
- ✓ Sustains employment – in all regions
- ✓ Sustaining employment = less pressure on social welfare costs
- ✓ Self fulfilling business model
- ✓ Lessens the gap between rich and poor

# Challenges – Market Value (“MV”)

## At the date of grant:

- The option price must not be not less than MV of the same class of shares
- The total market value of the issued but unexercised qualifying options of the company not to exceed €3 million
- The total MV of all shares granted to an employee or director, not to exceed
  - €100K in any tax year
  - €250K in any 3 consecutive tax years, or
  - 50% of annual remuneration for the year of grant
- MV determined in accordance with Section 548 TCA 1997
- Costly for company to prepare a valuation
- Draft Revenue KEEP Guide seen by IPSA

*The value of a shareholding in an unquoted company depends on many factors. For example, the value will depend on the business sector/industry, the net assets of the business, the profitability of the business and its future prospects in the marketplace. Revenue expects that in valuing the shares the company should use a valuation method which complies with relevant accounting standards. Revenue will not provide an opinion regarding company specific share valuations.*

- IPSA have asked for a “safe harbour” approach or to work with IPSA on valuation

# Challenges – Fintech

## Draft Revenue KEEP Guide seen by IPSA

*‘Financial activities’ are defined in Section 488 TCA 1997 and include activities in the provision of, financing or refinancing facilities by any means which involves, or has an effect equivalent to, the extension of credit.*

*With regard to the application of “all matters” relating to the extension of credit, it is not the intention that a broad interpretation would apply to the term “all matters” in this context. For example, it wouldn’t be envisaged that companies involved in R&D activities in the lending sector are excluded.*

*Where there is doubt regarding the inclusion of particular activities within the above definition, Revenue will accept pre-transaction technical queries on a case specific basis for a limited period.*

- Suggestion that there is clarification that the comment on software and R&D development in the lending area is intended to refer to FinTech.
- Also welcome would be confirmation in the guidance that companies which simply provide the operating platform which support the financial services activities are not considered to be engaged in financial services for the purposes of the relief.

# Challenges – Holding Company Def.

- Options must be over shares in “the qualifying company”
- Qualifying company includes a company whose business consists wholly:
  - of holding shares
  - in a qualifying company
  - shares are directly held
  - comprise of the entire issued share capital
- Qualifying individual must be employee of the qualifying company throughout the option period
- Likely few actual holding companies will qualify
- IPSA submission to DOF that similar provisions to the Entrepreneur Relief should apply for example:
  - 51% holding company should qualify
  - Ability for employee to move employment within a group

# Challenges – Creating Liquidity in the shares

- Purpose of KEEP is to tax gain on sale as CGT
- CGT will apply where there is a third party sale
- Not all companies will be sold or list on a stock exchange
- Need to consider how to create a market in the shares:
  - owner buy back the shares
  - other employees buy the shares
  - company buy back of shares
- Company buy back of shares is in general treated as income not capital
- This defeats the purpose of KEEP as the gain on disposal will be income tax
- IPSA submission to DOF have suggested ways in which a buyback/redemption of KEEP shares would be subject to CGT and no income tax

# May you live in interesting times

Why ignore a business model that meets both a social and economic need for all stakeholders?

KEEP is first step to increasing awareness of employee share ownership in Irish business.

Let's make it a positive one and strive to increase this section of the intangible economy\* to grow GDP

\* Based on theory of *Capitalism without Capital: The Rise of the Intangible Economy*, Jonathan Haskell & Stian Westlake

# Thank You



Stephanie Bowe

– Chair IPSA Private Company Committee & Tax Director EY



Gemma Jacobsen

– Vice-chair Private Company Committee & Tax Director KPMG

# Thank You

Team here at KPMG for accommodating us  
You for coming!!

Next IPSA Event...

# Employee Share Ownership Day



21<sup>st</sup> June 2018 – Google Dublin

# Employee Share Ownership Day

Booking now open – all details

on [www.ipsa.ie](http://www.ipsa.ie)

Hope to see you all there!!