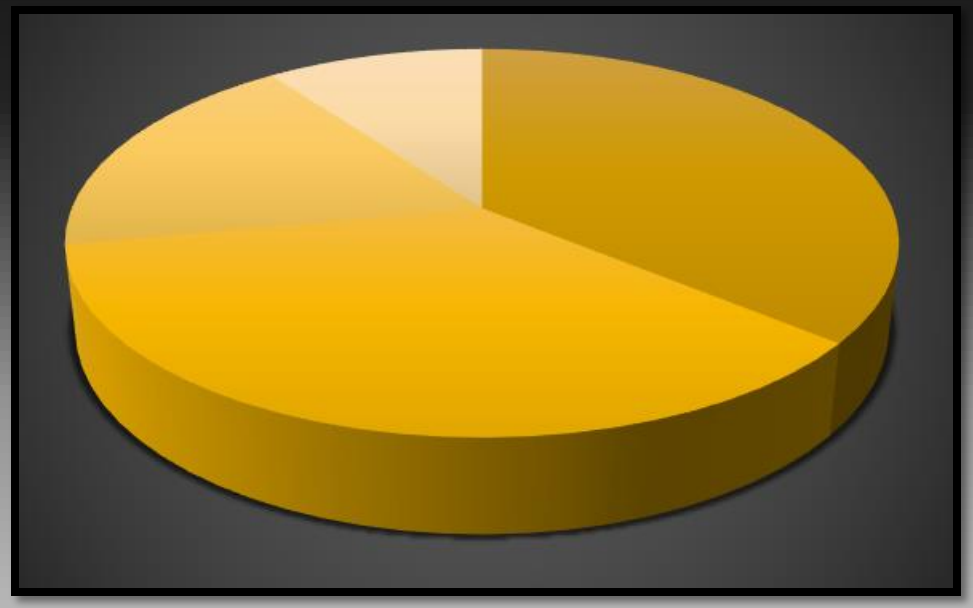
EsopCentre

spreading the wages of capital

Awarding Shares To Employees In A Covid-19 World: How To Make Good Use Of The Government's Share Incentive Plan

Webinar

Thursday 9 July 2020



EsopCentre

spreading the wages of capital

A Word From The Chairman

Professor Michael Mainelli

Executive Chairman

Z/Yen Group

LONG FINANCE






Agenda

10:00 – 10:05	Chairman's Introduction
10:05 – 10:25	Keynote address
10:25 – 10:30	Final thoughts
10:30 – 10:45	Questions & Answers

FS Club

Platinum Sponsors

Invest Northern Ireland
Red Hat
CDI China Development Institute
GIFT Gujarat International Finance Tec-City
Seoul Together we stand
LuxembourgforFinance Agency for the Development of the Financial Centre
CASABLANCA FINANCE CITY القطب المالي للدار البيضاء
BIFC Busan International Finance Center
GT
AIFC
Finance Montréal
Abu Dhabi Global Market
Dubai International Financial Centre

Gold Sponsors

PEERNOVA
Aptitude Software
BRIDGEWORKS
Feature Space
Outsmart Risk
Arboretum
Crown Agents Bank

Silver Sponsors

P2 Consulting
InfrasoftTech Fintech Digital Solutions
Bottomline
BCS Consulting Expect Excellence
PRAXITY Empowering Business Globally
Estates and Infrastructure Exchange
The Technium Global Service with Integrity

Bronze Sponsors

Profile Software
(expleo)
Contact Partners
alyne

Personal Sponsors

Challenge Curve
Currencycloud
worldpay
mastercard
RADIX
ZB
LEI Global Legal Entity Identifier Foundation
cuff associates
GPS Global Processing Services
The Transparency Task Force
Cygnetise
Catalina Consulting
AMSOM
Gibraltar Stock Exchange
Volanté

EsopCentre

spreading the wages of capital

Awarding Shares To Employees In A Covid-19 World: How To Make Good Use Of The Government's Share Incentive Plan

William Franklin

Partner

Pett Franklin

PETTFRANKLIN

HELPING *SHARE* GROWTH

PettFranklin

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Specialise in design and implementation of mainstream employee share schemes such as SIPs and also conversion of companies to EOT (John Lewis style) employee ownership
- Law Firm
- But multi disciplinary
- Training office for the ICAEW and the Law Society (currently have trainees for both qualifications)
- Experts in financial aspects of share schemes ie Valuation, Financial Projections and Modelling, Accounting for Share Schemes and use of Black Scholes mathematics for employee share schemes
- Innovative Firm at crossover of law and accounting/valuation
- William Franklin a Chartered Accountant founded PettFranklin over 10 years ago with David Pett the leading share scheme lawyer

SIPs Basics

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Free shares up to £3600 pa
- Partnership shares up to £1800 pa
- Matching free shares up to £3600 pa

£9000 pa

Also Dividend shares

Tax Relief

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Free and Matching Tax Free
- Partnership Shares Tax and NIC relief
- Without being awarded under a SIP scheme the award of free shares would be taxable employment income

- Held for 5 years Tax free sale

Key Requirements

PETTFRANKLIN

HELPING *SHARE* GROWTH

- All employee
- Similar terms
- Held in a SIP Trust
- Independent company

History

PETTFRANKLIN

HELPING *SHARE* GROWTH

- New Labour new millennium initiative to encourage employee ownership
- EMI options
- SIP – replace existing Approved Profit Sharing (APS) scheme
- Withdrawal of SAYE (abandoned)

Outcomes

PETTFRANKLIN

HELPING *SHARE* GROWTH

- EMI – widely recognised as a huge success
- SIP – somewhat disappointing

Why?

PETTFRANKLIN

HELPING *SHARE* GROWTH

- SAYE continued as established and standardised preferred scheme used by many larger quoted companies
- 3 years for tax free under APS extended to 5 years under SIPs --so less attractive—probably a major design flaw when SAYE can be only 3 years
- Complex rules and administration for leavers and where there are sales in less than 5 years
- Cost effective administration solutions not available for smaller companies

FA 2013 Reforms

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Significantly easier for unquoted companies to operate SIP because SIP shares alone can be subject to restrictions—remedied a major design defect in the original legislation
- But take up still low in unquoted sector and in smaller quoted company sector

Why low take up?

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Significance of 2013 reforms poorly understood by advisors
- Little experience of applying SIPs in unquoted companies
- Admin costs disproportionate for smaller companies
- For quoted sector fear that it will use up dilution limit head rooms and squeeze out space for executive share schemes
- Reluctance of owners to share equity with all employees – what's the point of it?
- P/E back companies often failed to meet the independence test and could not qualify

Practical Limitations

PETTFRANKLIN

HELPING *SHARE* GROWTH

- All employee scheme, so cannot make top up awards for joiners or exclude poor performers
- Unquoted companies need agreed HMRC valuations (to stay within small individual annual limits) But pre grant valuation agreements with HMRC can be obtained
- There are complex clawbacks of tax relief. Need to explain risk to employees at the outset.

Issues

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Doesn't help members of transitory workforces much if at all
- Could shut out younger and poorer employees who cannot afford to buy shares and miss out on partnership and matching shares . But could receive Free shares.
- "Paradox of unwelcome choice" – can create complex and unfamiliar design decisions for companies Needs informed and careful guidance

Major Attractions

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Managed employee ownership without cluttered share register because of trust
- Real employee ownership and potential to build valuable tax free holding in employer firm
- Dividends of up to £2000 could be paid tax free
- Corporation Tax Relief on shares transferred into a SIP Trust
- Employment Tax reliefs and subsidies on acquisition
- Retention, reward and sense and reality of ownership

Design Issues

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Consider administration consequences and try to “keep things simple”
- Consider restrictions on shares eg voting rights ,forfeiture on leavers
- Minimum holding periods for employees
- Exit route for unquoted company
- Think ahead about where shares are coming from and how many will be needed now and in the future
- Valuation policy for unquoted shares (needs to be consistent with s 273 TCGA92(price shares would fetch on sale in an open market)
- Why have complexity of dividend shares when employees can now receive first £2000 tax free each year?
- SIP trust is a purpose trust and use of shares in SIP trust is limited to SIP. Should shares intended in the future to be used for SIP awards be held in a more flexible separate holding or feeder trust?
- An all potential features SIP scheme or a focused SIP scheme? Paradox of having to understand and make too many design choices for hypothetical situations

Share Scheme for a Post Covid 19 world?

PETTFRANKLIN

HELPING *SHARE* GROWTH

- SIPs as an alternative to pay increases
- SIPs as a benefit of being an employee
- being able to use it a benefit for the firm of **HAVING EMPLOYEES rather than just contractors**
- SIPs as a real way of showing we are all owners of the company and "all in it together"
- If government funding of companies leads to debt to equity swaps SIPs could be a "shovel ready" vehicle for transferring these shares to employees rather than "permanent" state ownership
- SIPs as a condition of other share schemes ;to drive wider employee share ownership ?
- SIPs as a condition/route for being able to obtain an HMRC agreed valuation of an unquoted company for other share schemes ?
- Lean against forces widening wealth inequality in society –levelling up?

Employee Communication

PETTFRANKLIN

HELPING *SHARE* GROWTH

- Explain how to join
- Explain the benefits
- Explain how it works
- Do not forget it once set up and make sure employees understand and value it
- Integrate with other messages

PETTFRANKLIN

HELPING *SHARE* GROWTH

William Franklin
william.franklin@pettfranklin.com

0121 281 5800

Twitter: www.twitter.com/pettfranklin

www.pettfranklin.com

Questions & Comments

EsopCentre

Resources – “It’s Our Business”

EsopCentre

EsopCentre

About ⌄ What is Eso? ⌄ News ⌄ Esop awards Events

Home » newspad

newspad

The Esop Centre’s *newspad*, edited by Fred Hackworth, is a monthly publication providing in-depth coverage of the main international news in the employee share ownership field.

July 2020

In this month’s edition:

- EMI soars in popularity and in cost to taxpayers
- Limited Covid Sharesave disruption
- Sharesave triumph for Smiths
- No extension to reporting deadline
- Jersey conference for trustees September 25
- Share plans symposium rescheduled for March 24
- Pandemic furlough and tax risk to EMI
- Employee shareholder stake crucial to Royal Mail future
- Coping with Covid – members’ reactions
- State should invest in SMEs, urges report
- Companies ignore big shareholder revolts
- Roadchef: HMRC’s wall of silence

it’s our business

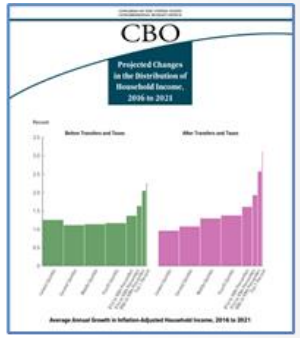
newspad of the Employee Share Ownership Centre

Tidal wave of MBOs engulfs C.I. trust companies

Read this month’s ***newspad*** in full.

Resources – Bulletins

EsopCentre

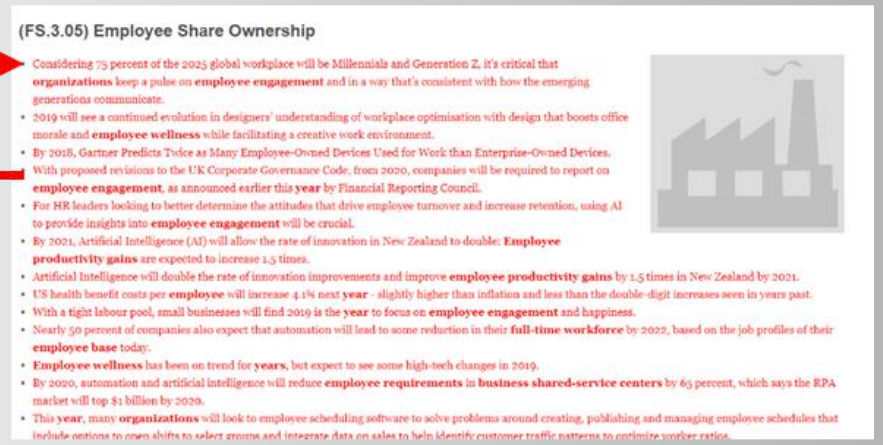


From 43,000 curated sources, you get a machine summary of the key point(s) from forward-looking articles, not just article titles:

(LF.10) Reduced Inequalities

In September 2015, 193 world leaders agreed to 17 Global Goals for Sustainable Development. If these Goals are completed, it would mean an end to extreme poverty, inequality and climate change by 2030.
Goal 10: Reduce inequality within and among countries.

- If the distributions of **income**, means-tested transfers, and federal taxes follow CBO's projections, **income inequality** will be greater in 2021 than it was in 2016.
- **High growth** over the **past decade** has been based on unsustainable resource exploitation; addressing the **resulting growth** in **inequality** and environmental cost will be critical to ensure social stability and to ensure **strong sustainable growth** in the coming decade.
- The increase in **inequality** observed in the last 30 years is a serious threat to France's social contract.
- America's pluto-populist president is peddling a tax plan that will further increase **economic inequality** at a time when **income** and wealth gaps are already widening.
- A failure to give the **world's poorest women control** over their bodies could widen **inequality** in **developing countries** and thwart progress towards global goals aimed at ending poverty by 2030.
- Under French leadership the G7 group of the 7 largest advanced economies plus the European Union will focus in 2019 on fighting **inequality**, including **poverty** induced by **climate change**.
- Leadership might require companies to take positions and advocate for **change** on **global inequality** - including **in-work poverty**.
- Achieving the 17 **Sustainable Development Goals** - which include clean water, clean energy, sustainable cities, climate action, responsible consumption, **reduced inequality** and more - could open a market opportunity of $12 trillion by 2030.
- The next decades offer an opportunity to address **African urban poverty** and **inequality** and shape development priorities to ensure that urbanisation helps foster well-functioning, liveable and sustainable cities.
- In Africa and in the LDCs, eradicating poverty by 2030 will require both **double-digit GDP growth** and dramatic declines in **inequality**, illustrating the scale of the current challenges faced.
- The economic catch-up of Asia with the West will continue in the coming decades - thereby reducing **global inequality** among countries and among world citizens.



(FS.3.05) Employee Share Ownership

- Considering 75 percent of the 2025 global workplace will be Millennials and Generation Z, it's critical that **organizations** keep a pulse on **employee engagement** and in a way that's consistent with how the emerging generations communicate.
- 2019 will see a continued evolution in designers' understanding of workplace optimisation with design that boosts office morale and **employee wellness** while facilitating a creative work environment.
- By 2018, Gartner Predicts Twice as Many Employee-Owned Devices Used for Work than Enterprise-Owned Devices.
- With proposed revisions to the UK Corporate Governance Code, from 2020, companies will be required to report on **employee engagement**, as announced earlier this **year** by Financial Reporting Council.
- For HR leaders looking to better determine the attitudes that drive employee turnover and increase retention, using AI to provide insights into **employee engagement** will be crucial.
- By 2021, Artificial Intelligence (AI) will allow the rate of innovation in New Zealand to double: **Employee productivity gains** are expected to increase 1.5 times.
- Artificial Intelligence will double the rate of innovation improvements and improve **employee productivity gains** by 1.5 times in New Zealand by 2021.
- US health benefit costs per **employee** will increase 4.1% next **year** - slightly higher than inflation and less than the double-digit increases seen in years past.
- With a tight labour pool, small businesses will find 2019 is the **year** to focus on **employee engagement** and happiness.
- Nearly 50 percent of companies also expect that automation will lead to some reduction in their **full-time workforce** by 2022, based on the job profiles of their **employee base** today.
- **Employee wellness** has been on trend for **years**, but expect to see some high-tech changes in 2019.
- By 2020, automation and artificial intelligence will reduce **employee requirements** in **business shared-service centers** by 65 percent, which says the RPA market will top $1 billion by 2020.
- This **year**, many **organizations** will look to employee scheduling software to solve problems around creating, publishing and managing employee schedules that include options to open shifts to select groups and integrate data on sales to help identify customer traffic patterns to optimize worker ratios.

To subscribe:
https://fsclub.zyen.com/#Subscribe

FS Club

Platinum Sponsors

Invest Northern Ireland
Red Hat
CDI China Development Institute
GIFT Gujarat International Finance Tec-City
Seoul Together we stand
LuxembourgforFinance Agency for the Development of the Financial Centre
CASABLANCA FINANCE CITY القطب المالي للدار البيضاء
BIFC Busan International Finance Center
GT
AIFC
Finance Montréal
Abu Dhabi Global Market
Dubai International Financial Centre

Gold Sponsors

PEERNOVA
Aptitude Software
BRIDGEWORKS
Feature Space
Outsmart Risk
Arboretum
Crown Agents Bank

Silver Sponsors

P2 Consulting
InfrasoftTech Fintech Digital Solutions
Bottomline
BCS Consulting Expect Excellence
PRAXITY Empowering Business Globally
Estates and Infrastructure Exchange
The Technium Global Service with Integrity

Bronze Sponsors

Profile Software
(expleo)
Contact Partners
alyne

Personal Sponsors

Challenge Curve
Currencycloud
worldpay
mastercard
RADIX
ZB
LEI Global Legal Entity Identifier Foundation
cuff associates
GPS Global Processing Services
The Transparency Task Force
Cygnetise
Catalina Consulting
AMSOM
Gibraltar Stock Exchange
Volanté

Thank You

EsopCentre

Forthcoming Webinars

10 July 2020 (11:00)	Building A Global Britain
13 July 2020 (11:00)	Transforming The Post Pandemic World
16 July 2020 (11:00)	Tools Of Engagement – The Power Of All-Employee Plans
17 July 2020 (11:00)	Portfolio Protection & Securities Class Actions – I'll Opt For A Slice!
21 July 2020 (11:00)	Share Valuation: The Wisdom On Price-Setting For Your Employee Share Schemes

Visit https://fsclub.zyen.com/events/webinars/

More added every day…