Company Share Option Plan

A Company Share Option Plan (CSOP) is a discretionary share option plan which allows the company to select which employees will be granted options and the size of award to be made to each individual, up to a limit of shares worth £30,000.

Since 6 April 2014, the process of obtaining formal approval for these plans from HM Revenue & Customs (HMRC) has been replaced with self-certification by companies. CSOP options have favourable tax treatment for employees and their employing company.

A tax-advantaged CSOP can be set up as a schedule or sub-plan to an existing or new share option plan. This will operate in the same way as the main plan, but with some additional restrictions to meet the requirements set out below.

Tax advantages

Employee

No income tax or national insurance contributions (NICs) are payable on the grant of a CSOP option or when it is exercised, provided that the exercise date is:

- between the third and tenth anniversaries of the date of grant; or
- within six months of the option holder ceasing to be employed because of injury, disability, redundancy, retirement, a TUPE transfer or the participant's employing company leaving the group;
- if the participant exercises in order to accept a cash takeover offer where there was no opportunity to exchange the option for an option over the acquiring company's shares; or
- within 12 months of the participant's death.

On sale of the shares, there is a potential capital gains tax (CGT) liability on the difference between the sale proceeds and the amount which the employee paid for the shares. It may be possible to reduce or eliminate the chargeable gain through the individual's annual CGT exemption (£11,700 in 2018-19).

Employing company

The employing company can claim a deduction for corporation tax purposes for the difference between the market value of the shares at the exercise date and the amount paid by the employee.

The costs of setting up the plan are also allowable deductions.

If the conditions for income tax relief are met, the employing company will be exempt from any NICs liability on exercise of the option.

Main conditions to qualify as a CSOP option

Eligibility

CSOP options may only be granted to employees of the company setting up the plan or a company which it controls. Directors may only be granted options if they normally devote at least 25 hours per week (excluding meal breaks) to their duties.

If the company is a close company, any individual with a material (more than 30%) interest in the company may not participate.

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Limit on size of grants

The maximum value of the shares subject to all CSOP options granted to an individual, which are still capable of exercise, is £30,000 (taking the value at the grant date of each option).

Type of shares

The shares used for the plan must be:

- ordinary shares (which includes common stock) in the company setting up the plan or a company which controls it; and
- fully paid up and not redeemable; and
- either:
  - of a class listed on a recognised stock exchange, or
  - in a company which is not under the control of another company; and
- if there is more than one class of ordinary shares in the company, then a majority of the shares of the class used must be held:
  - *either* by employees and directors, who control the company through their shareholding, *or*
  - by persons who did not acquire the shares through their employment.

Exercise price

The exercise price of the option must be stated at the time of grant and cannot be less than the market value of a share at the grant date.

Adjustments may be made to the exercise price and the number of shares subject to the option to take account of variations in share capital.

Transferability of options

CSOP options must not be capable of being transferred by the participant, except to personal representatives if the participant dies.

Performance conditions

CSOP options may include conditions which must be satisfied before they can be exercised, such as meeting performance targets. The conditions must be clearly specified at the time of grant and objective – for example, not dependent on the exercise of someone's judgement.

The plan may permit the conditions to be varied or waived after they have been set if events happen that would make a different condition a fairer measure of performance. The new conditions should be no more difficult to satisfy than were the original conditions when they were first set.

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Timing of exercise

There are no restrictions on the timing of exercise, even after employment has ceased, except that if a participant dies the option cannot be exercised more than 12 months later. However, the timing of exercise may affect the participant's tax position – see tax advantages above.

Change in control

The plan may allow options to be exercised after a change in control of the company.

It may also allow options to be exchanged for options with equivalent terms and conditions over shares in the acquiring company.

Cashless exercise

The plan may provide arrangements for some or all of the shares to be sold at the time of exercise to fund the exercise price. However, the shares must be acquired by the participant before they are sold and the participant must have the choice of paying cash for the shares and keeping them all.

Payment with existing shares

HMRC will not allow the exercise price to be paid with shares of the same value already owned by the employee.

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