Factsheet – Company Share Option Plan

The Company Share Option Plan (also known as 'CSOP') came into existence with the Finance Act of 1992. It is one of four tax-advantaged share plans in the UK, the others being the Share Incentive Plan or 'SIP', Save As You Earn or 'SAYE' and the Enterprise Management Incentive scheme or 'EMI' (see our separate factsheets for details).

CSOP in a nutshell

CSOP is a discretionary scheme, meaning that the company can select the employees and directors it wishes to participate in the plan. The company grants eligible employees or directors an option to purchase the company's shares in the future at a price set on the date of grant.

For example, a company may grant an option over 1000 shares at £2.50 per share. In 3 years' time the market value of each share may be £6. The participant will be able to exercise the option by paying the company £2500 and the participant acquires shares that are worth (at the time of exercise) £6000.

There is no charge to income tax if the option is exercised in accordance with the provisions of the scheme at a time when the scheme is a Schedule 4 CSOP (see ETASSUM41130).

The company can only grant tax advantaged options if the company has self-certified to confirm the CSOP meets the requirements of Schedule 4 ITEPA 2003, (prior to 6 April 2014 a CSOP had to be approved by HMRC) (refer to ETASSUM41130). No participant can be granted tax advantaged options over shares with a value of more than £30,000 calculated at the date of grant (ETASSUM41180). Participation in the scheme is not open to people who own more than 30% of the company (this is known as the 'material interest' test).

Income tax is not chargeable when an option is granted and is not normally chargeable on the increase in value of the shares between grant of the option and the exercise of the option if the following conditions are satisfied:

- It is at least 3 and no more than 10 years between grant and exercise, and
- the scheme retains its tax advantaged status until the time the option is exercised , and
- the option is exercised in accordance with the rules.

Subsequent disposal of the shares acquired by the option will be chargeable to CGT. The base cost would be the price paid (the exercise price) for the shares plus any amount chargeable to income tax. The date of acquisition will normally be the date of exercise of the option. The normal annual exemption rules apply.

Compliance

Companies offering a CSOP will need to register their scheme and certify that it meets the requirements of all relevant legislation via HMRC's ERS Online service. They must also submit annual share scheme returns. More information may be found here: https://www.gov.uk/guidance/tell-hmrc-about-your-employment-related-securities

HMRC's specimen CSOP rules may be found here: http://www.hmrc.gov.uk/gds/etassum/attachments/etassum47200_specimen_schedule_4_csop_rules.doc

Further information on compliance requirements may be found in HMRC's share schemes manual here: https://www.gov.uk/hmrc-internal-manuals/employee-tax-advantaged-share-scheme-user-manual/etassum40000

Key stakeholders involved in running a CSOP

At the plan issuer company: HR, Finance, Company Secretariat, Payroll, Internal Communications.

External stakeholders: legal and tax advisers to the company, plan administrator (if outsourcing record-keeping).

Sources of help and support

If you and your team are new to running CSOP or share schemes of any kind or if you wish to extend or refresh existing knowledge, ProShare can help!

- We run regular training sessions for in-house teams and individuals.
- We can help you benchmark existing share schemes.
- We can help you find a plan administrator or advisor.

Do get in touch with us at team@proshare.org