

# TaxTalk

Simplifying the complexities of Tax

July 2023

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# Share schemes to become less bureaucratic

Following the 2023 Spring Budget, HMRC's tax advantaged share schemes have had a quiet makeover, Tafara Golding explains some of the key changes.

Share schemes are used to retain and incentivise key members of staff and this is particularly important in a business' early years where it may not have the monetary means to pay bonuses.

## EMI

One of the most well-known and utilised HMRC approved schemes by small and medium sized businesses in the UK is the Enterprise Management Scheme (EMI) scheme. This scheme works by allowing employees the right to acquire shares at an agreed price in the company within 10 years and not be subject to income tax or national insurance on any growth in value (subject to other conditions).

To ease the administrative burden on employers, from 6 April 2023, the government has made changes to the running of EMI schemes by removing two requirements from the EMI share option documentation:

- The requirement for option agreements to state details of restrictions attaching to the shares under option

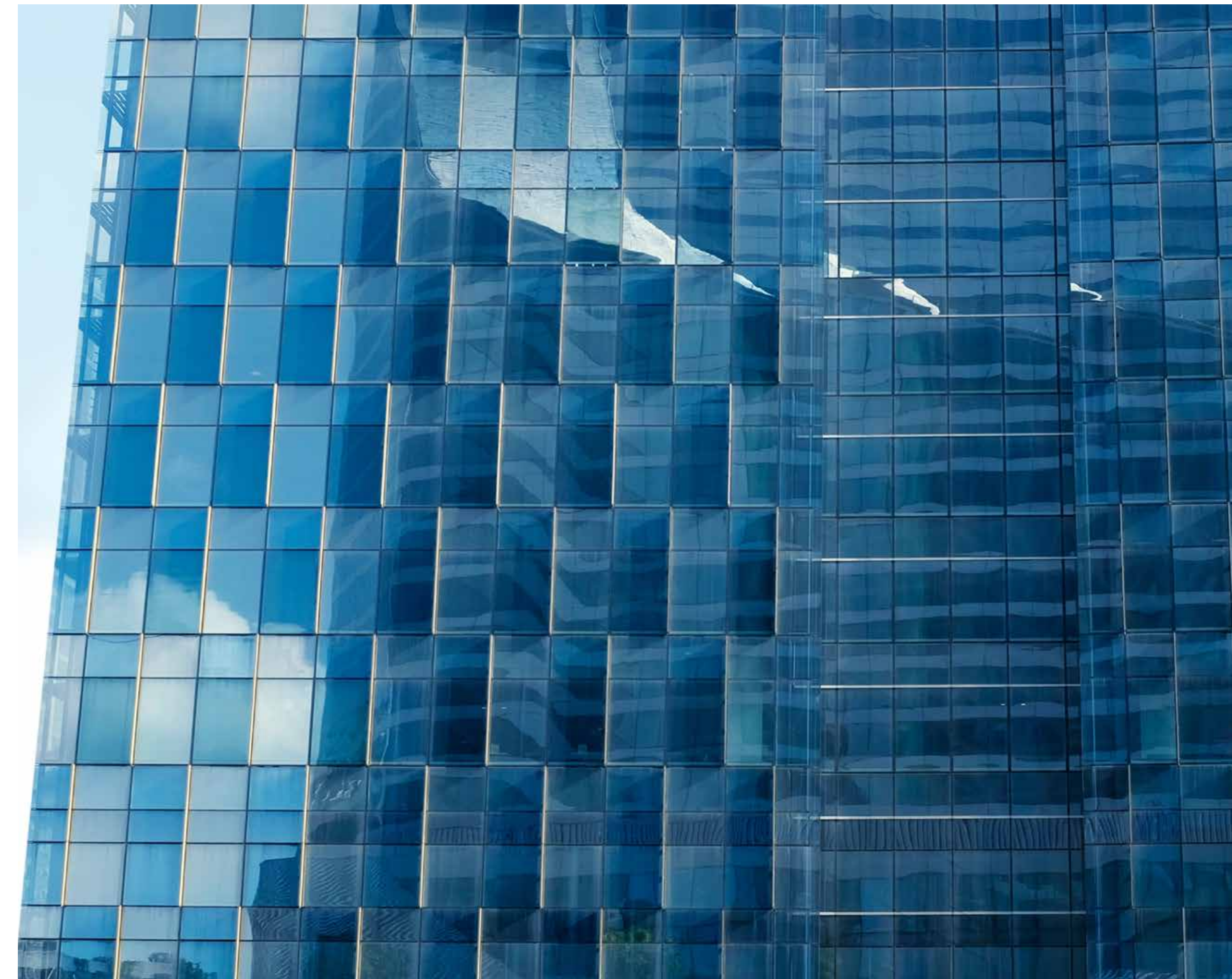
- The written confirmation of the working time requirement. However, employees will still need to meet the working time conditions to qualify for the income tax incentives under the scheme.

The aim is to assist businesses in standardising their documents issued to all employees, which is hoped could assist in reducing associated legal and professional fees.

Looking further into the future, the government also announced plans that, from 6 April 2024, it will no longer be necessary to notify HMRC of the grant of new EMI options within 92 days. It is proposed to align the notification obligation with the rest of the share scheme annual reporting so that there is only one admin deadline, being 6 July after the tax year.

Further details on the EMI schemes can be read [here](#).

Some of the lesser well-known tax advantaged schemes are Company Share Option Plans (CSOPs), Save As You Earn (SAYE) schemes and Share Incentive Plans (SIPs). These schemes are essential for employers to consider if they do not qualify for the EMI scheme.



# Share schemes to become less bureaucratic



## CSOPs

In addition to the EMI changes from 6 April 2023 mentioned above, the government has doubled the value of share options an employee can hold under a CSOP from a total value of £30,000 to £60,000.

The government have also removed the “worth having” condition on the CSOP options, meaning that the share options no longer need to be granted on the controlling share class of a company. These changes to CSOPs can potentially open the scheme to new businesses that previously had multiple classes of shares or they can now choose a share class or create a new one to be available under option on the CSOP.

## SAYE and SIPs

The government released a call for evidence on 5 June 2023 to review the effectiveness, usage and simplicity of SIPs and SAYEs in its efforts to boost UK business growth. It also wants to receive opinions on how these two schemes can be improved to help employees on lower wages share in the success of their company's business.

A SAYE scheme works by allowing a company's eligible employees to acquire shares at a price that is no less than 20% of its current market values. Employees then enter in a contract for three or five years to save a pre-determined amount with a bank and at the end of the term, they have the options to acquire the shares or receive their savings. No income tax is payable on receiving the option, any interest received or increase in value from the grant and exercise dates.

SIPs are a share scheme for all a company's employees to participate in. This allows employees to purchase shares in the employer that are held in trust for 5 years to obtain the income tax advantages.

According to HMRC's evaluation report released on the same day, companies that were not registered for one of these schemes perceived the creation and administering of the schemes to be complicated and difficult, which as a result, created a barrier to offering the schemes to their employees.

HMRC also found as part of its evaluation report that 81% of companies indicated that there was an improvement in employment and business outcomes, with the main impact in being able to retain staff and attract new employees.

The government's concern is that compared to EMI's and CSOPs, SIPs and SAYE have not seen an increase in their usage over the past few years with 260 companies granting SAYE options in 2020/21 compared to 290 companies in 2015/16, and 480 companies granting SIP options in 2020/21 compared to 550 in 2015/16. Their hope is that the call for evidence can make businesses aware of these two schemes that can increase the number of participants and increase growth.

We regularly help clients set up employee share schemes. If you have any questions on the above, please contact Tafara Golding.



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# R&D Tax Relief on blockchain technology: what qualifies, what doesn't, and some important recent changes to the claims process

Blockchain technology is an area in which there is constant innovation and improvement in the baseline technology, and is therefore an area where the availability of R&D tax relief should be strongly considered.



Blockchain technology has disrupted the way data is controlled. Today, companies large and small are utilising and investing significantly in the development of their blockchain technology.

But blockchain technology is an ever-evolving area requiring constant investment: from the development of new software platforms that utilise blockchain-based technologies to the re-engineering of existing software to make use of, and integrate with cutting-edge blockchain solutions. As a result, it is an area which can fall squarely within the criteria for R&D tax relief. However, in order to claim R&D tax relief, companies will need to be able to convey the innovation, development and technological advances to HMRC.

## Not all developments may qualify

Currently many companies are developing apps or services to integrate with their technology. In some instances, they will be using publicly available baseline knowledge and technology. Because the company is not developing its own blockchains, but is using an existing framework, it may find that R&D tax relief is not available, as there may well not be a demonstrable advance in science, or technology when solely building upon the original baseline technology.

## What areas qualify for relief?

Qualifying R&D expenditure is more likely to be available where a company is developing its own blockchain, with entirely new technical stacks, or extending a blockchain. Companies researching alternative routes to enable a blockchain to function for their purposes, may therefore be able to claim R&D tax relief.

Additionally, efforts to solve some of the headline concerns surrounding blockchains will usually qualify as R&D expenditure, including:

- Security;
- Environmental costs of mining;
- GDPR compliance; and
- Data governance.

A hot topic: the environmental impact of data mining, is an area under scrutiny, particularly the significant energy required for data mining. Should a company be researching and developing methods to use blockchain in a more efficient, environmentally conscious, way then there is every chance that the work could qualify for R&D tax relief.

## Qualifying R&D expenditure changes

There have been substantial changes to the scope of expenditure that may be included in an R&D tax relief claim for both large companies and SMEs for accounting periods beginning on or after 1 April, 2023. These include:

- Data licences;
- Cloud computing; and
- Pure mathematics.

Cloud computing costs are often substantial when developing blockchain technology and the inclusion of them as qualifying R&D expenditure will be welcomed. As will be the inclusion of pure mathematics, as some blockchain applications and projects are driven by underlying mathematical advances.

## First-Time Claimants

If your company is making a R&D tax relief claim for the first time, you will need to notify HMRC in advance about your claim using the new claim Notification Form. The form is required for accounting periods beginning on or after 1 April 2023.

# R&D Tax Relief on blockchain technology: what qualifies, what doesn't, and some important recent changes to the claims process

You must notify HMRC if:

- You are claiming for the first time;
- You are claiming for the previous tax year, but you did not submit that claim until after the last date of the claim notification period. (The claim notification period ends 6 months after the end of the period of account); or
- Your last claim was made more than three years before the last date of the claim.

## Existing Claimants: The Additional Information Form

From 1 August, 2023, you will need to submit an additional information form to HMRC to support all your claims for R&D tax relief or expenditure credit. This form needs to be submitted before you submit your company's Corporation Tax Return. Failure to do so may result in your claim for R&D tax relief being removed from your Company Tax Return.

However, we at PKF are well prepared for the additional reporting requirements, and all the information required for the additional information form will be captured during our work when we prepare your R&D claim.



For more information, please contact David Emery.



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# Options in effectively obtaining a share of your company's growth

Phil Clayton sets out the pros and cons of the different share option schemes and highlights some potential tax pitfalls.



There are many different ways your company might incentivise you to stay with the business, most relate to rewards like your salary, your bonus, free fruit or your benefits package. But when it comes to share option schemes, it's important to understand how it affects your taxes. Some schemes offer HMRC approved tax benefits, others can catch people off guard and be more expensive than anticipated.

## Enterprise Management Incentives (EMIs)

The EMI scheme is available to smaller companies and gives your company an opportunity to grant you options up to the total value of £250,000 in any three-year period. These options offer very favourable tax treatment:

- At Grant – there are no income tax or National Insurance Contribution (NIC) implications when granted the option
- At Exercise – when you exercise your options and purchase the shares, there are only income tax or NIC implications if the option price is below the Market Value at the grant date. Otherwise, no tax implications on exercise assuming within 10 years of the grant

- At Sale – at the sale of your shares, you pay Capital Gains Tax (CGT) on the difference between the value at grant of the option and your sale proceeds.

If you were granted the options more than two years before your sale, you will likely qualify for Business Asset Disposal Relief (BADR) (formerly Entrepreneur's Relief), which can reduce your CGT liability from 20% to 10%.

In most case, EMI option holders only ever end up paying CGT at 10% on the gain realised on their options received through the company.

## Company Share Option Plan (CSOP)

The “little brother” of the EMI scheme, the CSOP has fewer restrictions on the company itself. The options must be granted at market value with no discount, and you can be granted up to £60,000 of options (prior to 6 April 2023, this was limited to £30,000).

- At Grant – when the options are granted, there are no tax implications

- At Exercise – if the options are exercised at least three years after the grant, but within ten years of the grant, there are no income tax or NIC implications.

There can also be no tax implications in certain scenarios for ‘good leavers’ leaving employment, on a takeover, or some other qualifying events. Otherwise, income tax and NICs can be due when you exercise the options outside of the 3-10 year window and may be collected through PAYE

- At Sale – at sale, your gain liable to CGT at 10% or 20% will be calculated as your proceeds less the exercise costs (and the value liable to income tax if relevant).

BADR is not as easy to come by as with EMI and follows the “normal” rules of owning 5% of the company's shares as well, so is unlikely to qualify.

In most cases, you would only be liable to CGT at 10% or 20% on the gains you realise when selling your shares.

# Options in effectively obtaining a share of your company's growth

## Save As You Earn (SAYE)

SAYE share option schemes are nearly as simple as they sound. During a specific period (three or five years), you will make monthly savings into the scheme of up to £500 per month through your employment. At the start of the designated period, you will be offered your share purchase price that may be discounted by up to 20%.

At the end of the designated period, the scheme pays a bonus (and sometimes interest), and you can use these funds to purchase the shares at the agreed price.

- At Grant – as with the other schemes, there are no tax implications when offered the scheme
- At Exercise – when the agreed period is over, any bonus and any interest you receive is tax free (you could walk away with this cash with no tax implications).

Should you elect to exercise the options and purchase the shares, there are no income tax implications at all

- At Sale – the only tax implications for the SAYE scheme is CGT when you dispose of the shares, this will be the proceeds less the purchase price of the shares including the bonus and interest amounts.

If you were to leave before the required three or five years was complete, you would not be able to exercise the options and purchase the shares. However, you are able to withdraw your cash (with any bonus or interest from the scheme) and this amount is still tax free.

A potential added bonus with the SAYE scheme is the ability to avoid CGT all together. You will not pay any CGT if you transfer the shares into an ISA within 90 days of the scheme ending, or directly to a pension when the SAYE scheme ends.

## Non-Tax Advantaged Option Schemes

If the company does not have one of the HMRC approved schemes above, they may still try and incentives you with shares options.

Similar to the other option schemes, they could offer you non-tax advantaged options:

- At Grant – similar to the above, there are no tax implications at the grant of the option
- At Exercise – unlike the HMRC approved schemes, there will always be income tax implications at exercise. The value of the shares at exercise, less the cost you paid for them, will be treated as employment income and liable to income tax.

If the shares are “readily convertible” (can be easily converted to cash – for example, the company is listed on a stock exchange) NIC will also be due on the value, and this will be collected through PAYE

- At Sale – similar to the above, there can still be CGT implications on your sale of the shares. This is calculated on your sales proceeds less the market value at exercise.

Therefore, if you sell the shares shortly after exercise, there may be no CGT due on disposal.



# Options in effectively obtaining a share of your company's growth

With these option schemes, if not readily convertible, it can leave you with a tax liability and no cash to pay it. If readily convertible, the company may offer you "sell to cover" opportunities, where at exercise they sell the required shares to cover your income tax and NIC liability collected through PAYE.

## Other (non) options?

Your company might not offer share options, but instead HMRC's approved Share Incentive Plan (SIP) which is not covered in this article but offers beneficial treatment on acquiring shares.

Otherwise, the simplest route may be to gift you shares in the company straight up. The implications on you can be quite significant here:

- Generally you will be liable to income tax on the actual value of the shares you receive, this could mean you will have a tax liability with no cash to fund it. The situation does become more complex when the shares gifted have restrictions over them, or other conditions. Restrictions on shares can change the treatment of the share on award and the position when restrictions lift and on future disposal.

- Like above, if the shares you receive are considered "readily convertible", NIC will also be due on the value. The income tax and NIC will need to be collected through PAYE.

Finally, where a company does not want to offer physical shares, but still wants you to benefit from the growth in value, they can offer Phantom Share Schemes. These are cash bonuses measured by reference to the value of the shares at the time. These schemes are taxed the same as any other cash bonus.

It would be best to ask your employer to confirm the tax implications of any shares or schemes they offer, or to take personal tax advice, to ensure you are aware of the relevant position.



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	EMI	CSOP	SAYE	Non-advantaged
<b>Grant</b>	No tax implications	No tax implications	No tax implications	No tax implications
<b>Exercise</b>	No income tax or NIC if the exercise price is equal to the full market value at grant	No income tax or NIC due if exercised between 3 and 10 years	Any bonus or interest from the scheme is tax free.  No income tax or NIC due on exercise of the options.	Income tax (and maybe NIC) due on the difference in the exercise value and the exercise price
<b>Sale</b>	CGT is due on the increase in value between grant and sale.  BADR can be available if option was granted at least two years ago.	CGT is due on the increase in value between grant and sale.	CGT is due on the increase in value between the purchase price and sale.  Options to avoid CGT transferring to ISA or Pension	CGT is due on the increase in value from exercise to sale.

# About PKF

## Simplifying complexity for our clients



PKF is one of the UK's largest and most successful accountancy brands.

We provide a full range of audit, accountancy, tax and advisory services, and are experts at simplifying complexity – we're particularly well-known for working with large, high-profile businesses with challenging issues in fast-moving and highly technical areas.

We are also an active member of PKF Global, an international network of legally independent accounting firms that gives us an on the ground presence in 150 countries around the world.

### PKF in the UK



**10th largest** Tax practice in the UK

**£153 million** annual fee income



**1,450+** UK partners and staff

**6th** ranked auditor of listed companies in the UK



## Our tax services At a glance

**We offer comprehensive tax compliance and advisory services to a range of clients, both in the UK and globally, helping them find their way in the increasingly complex world of tax.**

We find practical solutions that we use to our clients' advantage. Our team of experts supports individuals, and businesses ranging from start-ups and SMEs to large international groups, both listed and privately owned.

Where understanding of our clients' sector makes the difference, our experts invest their in-depth industry expertise to provide invaluable support and insights.

"By bringing together the extensive expertise and experience of our tax specialists we can provide a fully rounded service that offers excellent value for money."

We offer the following specialist tax services:



### Corporate and business taxes

Our Business Tax team will ensure that you are both tax compliant and efficient.

We provide specialist corporate and business tax advice on both a local and international level, which includes senior accounting officer and large business compliance, transaction services, due diligence, R&D tax relief, employer solutions, transfer pricing and global mobility. We also support both the personal and business affairs of partnerships and LLPs.

[Read more](#)



### Personal tax and wealth management

Our team will guide you through the complex world of taxes, helping you meet all filing requirements and identifying risks and opportunities to help mitigate tax liabilities.

We advise individuals, the self-employed, partners, trustees and executors with their UK and international tax affairs. Our services include all aspects of tax, including Self Assessment, Capital Gains Tax, Inheritance Tax, property (both residential and commercial), trusts, family wealth and estate planning, residence and domicile issues.

[Read more](#)



### VAT and Indirect taxes

Our indirect tax team will support you in meeting your VAT compliance objectives and advise you on any VAT issues that your business faces.

We can ensure that your VAT risk is assessed and managed, and that your VAT recovery is optimised. We can also provide advice and compliance services on other indirect taxes, such as Insurance Premium Tax, Customs duty, and Air Passenger Duty.

[Read more](#)



### Tax disputes

HMRC is increasing the number and scope of tax investigations into both individuals and businesses, covering all aspects of potential underpayments of tax, including offshore investments, personal and corporate Self Assessment Tax Returns, PAYE and NIC compliance and VAT.

If an issue arises, our trusted advisors will match the right specialists with your needs to provide you the necessary support – whether for a routine HMRC enquiry or a more complex investigation.

[Read more](#)



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