

Setting up your first share option plan or management incentive plan

Rewarding and retaining talent through equity

Whether you're implementing an Enterprise Management Incentive (EMI) scheme, growth shares, or a bespoke management incentive plan for senior leadership, it's important to structure things correctly from the outset – legally, commercially, and tax-efficiently.

Use this checklist to assess readiness and prepare for next steps.

1. Key initial questions

- What are your goals for the plan? (e.g. retention, performance incentives, exit alignment).
- Who will participate – all staff, key hires, management only?
- What proportion of the cap table are you prepared to allocate?
- Are you likely to raise VC or private equity capital in the short to medium term?
- Is your company eligible for EMI tax reliefs?

2. Plan design & structuring

- Choose plan type(s):
 - EMI options (tax-efficient for qualifying UK employees).
 - Unapproved options (for non-UK/EMI-ineligible individuals).
 - Growth shares/hurdle shares.
 - Bespoke management incentive plan (common in private equity deals).

- Define vesting terms:
 - Time-based?
 - Performance-based?
 - Combination?
 - Standard 3 - 4 year vesting schedule with 1-year cliff?
- Determine leaver provisions:
 - Good vs bad leaver definitions.
 - Treatment of vested vs unvested shares.
- Set exit provisions:
 - Will options accelerate on a sale?
 - Will employees be dragged into an exit?

3. Governance, legal & tax considerations

- Review company constitution (articles, shareholders' agreement).
- Secure necessary board/shareholder approvals.
- Obtain EMI valuation from HMRC (if applicable).
- Draft plan rules and grant documents.
- Prepare corporate authorisations and board minutes.

4. Implementation & rollout

- Issue grant letters to participants.
- Provide employee communications/FAQs.
- Track equity allocation and maintain cap table integrity.
- File EMI notification with HMRC within 92 days (if relevant).
- Establish ongoing compliance (e.g. annual Employment Related Securities – ERS, returns).

5. What investors expect

- Clear pool sizing and transparent cap table tracking.
- Legally robust documentation and consents.
- Investor-friendly Articles and shareholders' agreement.
- Sensible, commercially appropriate leaver provisions.
- Alignment with future financing and exit strategy.

Final thoughts

A well-structured management incentive plan or option plan is a powerful tool for growth, retention and alignment – but it must be built on solid foundations.

Let's talk

If you're considering putting a scheme in place or simply want to check how investor-ready your current arrangements are, we'd be happy to advise.

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