Deferred Share Purchase Plan (DSPP)

Summary: tax efficient share purchase plan for employees, NEDs and non-employees

DSPP is a way of awarding shares outside the government recognised statutory share plans such as Enterprise Management Incentive (EMI). DSPP can be used to reward participants who would not qualify for such plans – including consultants or non-executive directors or employees of businesses that do not meet EMI /other tax advantaged plan criteria.

Any increase in value of the DSPP shares after acquisition should be subject to capital gains tax (CGT) rather than income tax, making the DSPP much more tax efficient than a non-tax advantaged share option. Business Asset Disposal Relief (formerly known as Entrepreneurs' Relief) may also apply, reducing the CGT rate to 10%.

Under a DSPP the shares are purchased outright for a small initial subscription payment (usually nominal value). The difference between the initial payment made and the initial market value of the shares at the time is left outstanding. This is usually paid up on the occurrence of some defined event, e.g., a sale or listing, rather like the exercise of an exit-driven option.

The unpaid amount on the shares may be taxed as an interest free loan, with tax charged on what would have been the commercial rate of interest. For example, for the tax year commencing 6 April 2023, HMRC's official rate of interest is 2.25% resulting in the highest rate of income tax on this being 1.0125% p.a. on the unpaid amount. Employer's NICs are also payable. Exemptions are available, particularly for directors or managers of "close" companies depending on the facts, or for loans (which when aggregated with other employee loans have) a value below £10,000.

Unlike an option the DSPP is not risk-free – the outstanding balance must be paid up eventually, even if the share price drops. Thus, DSPP is rarely appropriate other than for senior level staff or participants who are willing to assume this greater level of risk or where the outstanding amount is not too great.

Key Features

- Shares not options.
- Carries financial risk.
- Appropriate for employees and non-employees e.g. NEDs.
- Tax efficient – increase in value should fall within CGT regime, including potential application of Business Asset Disposal Relief (subject to certain conditions).
- Loan may be subject to a low level of income tax/employer's NICs but exemptions may apply.

How can RM2 Help?

- Advise on design elements including review of articles and consideration of leaver provisions.
- Produce subscription agreements and FAQs for participants.
- Assist with award process and share issue.
- Register your plan with HMRC and provide ongoing administration.
- Participant communication if required.

Contact us to arrange a FREE consultation

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