Enterprise Management Incentives – a call for evidence: CIOT response

Employment Tax OMB

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A summary of the CIOT's response to the call for evidence reviewing the Enterprise Management Incentives scheme.

In this article, we summarise the CIOT's response to the call for evidence reviewing the Enterprise Management Incentives (EMI) scheme and whether it achieves its objective of providing support for high-growth companies in recruiting and retaining talented employees.

The government's review objectives

The government's objective for this call for evidence was to gather evidence to understand whether the EMI scheme should be extended to include more companies. In particular, whether:

- the current scheme is fulfilling its policy objectives of helping small and medium-sized enterprises (SMEs) to recruit and retain employees;
- companies that are ineligible for the EMI scheme because they have grown beyond the current qualification limits are experiencing structural difficulties (i.e. in the labour market) when recruiting and retaining employees;
- the government should expand the EMI scheme to support high-growth companies and how; and
- other forms of remunerations could provide similar benefits for retention and recruitment as EMI for high-growth companies.

CIOT's response

In our response, we stated that the EMI scheme is fulfilling its objectives of helping SMEs to recruit and retain employees.

We considered that for many it is the ‘go to’ scheme for employee incentivisation, and that more and more smaller companies and start-ups are aware of, and using, the scheme. That said, we thought that extending the eligibility criteria for EMI to include more companies would help them to grow, especially post-pandemic.

In our evidence, we stated that companies that have grown beyond the current eligibility criteria do face significant additional costs in recruiting and retaining employees. Often, these companies are not large enough to cost-effectively implement other tax-advantaged share schemes, and cash-flow limitations may restrict their ability to otherwise match remuneration offers from EMI eligible companies or much larger companies. We suggested extending the eligibility criteria to assist these companies in recruiting and retaining employees. We also thought that extending the EMI criteria to a wider range of SMEs, including larger companies, would be unlikely to distort the ability of existing qualifying companies and smaller SMEs to attract and retain employees.

While we recognised that increasing the limits to a set of slightly larger companies would shift the ‘pinch point’ at which companies begin to face difficulties in attracting and recruiting employees, we consider that being larger, they would be more capable of managing the need to offer alternative remuneration incentives to attract and retain employees.

We also recommended that the current EMI scheme’s eligibility criteria be reviewed and the thresholds increased. For example, thresholds such as the number of qualifying employees and gross asset value should be increased to reflect inflation and current business needs. We suggested fixing the qualifying point for EMI eligibility so that the number of employees or gross asset value is set for a 12 or 18 month period, as this would help companies whose employee numbers or gross assets flex above and below the qualifying limits to know whether they qualified. We also thought that this would help those companies that grow rapidly during such a period to retain and recruit employees. And it would ease administration as the company would know whether or not it qualifies over a particular period.

Lastly, we suggested that the eligibility criteria for other forms of tax-advantaged share schemes be reviewed and increased to aid the recruitment and retention of employees. Coupled with administrative simplifications, we thought these schemes could then become more attractive to SMEs, and especially to those that do not meet the qualifying trades requirements or which have recently grown beyond the EMI scheme qualifying limits.