Joint Share Ownership Plans (JSOP)

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What is a Joint Share Ownership Plans (JSOP)?

A JSOP involves an employee acquiring shares jointly with a third party, which is typically an employee benefit trust (EBT). This arrangement is governed by terms set out in a joint ownership agreement, which stipulates that upon payment of his/her interest, the employee is a beneficial owner and entitled to the growth in the value of the shares when sold at a later date. The initial acquisition cost is often low compared to the potential gain when the plan vests. Any gain is then subject to capital gains tax (CGT) rather than income tax and NICs. JSOPs help employees focus on future value and growth, which aligns their interests with that of the shareholders.

The EBT owns all of the current value of the shares at the outset, so the company funds the EBT to acquire its interest in the shares, usually by way of a loan. The loan is later repaid by the EBT when the trust can sell its shares. However, there is a risk that the shares fall in value.

Further JSOP features:

- The EBT often holds the legal title to the shares, but the employee and EBT will both have a beneficial interest in the shares.
- Participants hold joint ownership of the shares, rather than contractual rights to acquire shares.
- The tax treatment has been formally accepted by HMRC.
- The participant's interest in the shares must be valued for tax purposes at the outset and agreed with HMRC, otherwise it could result in an up-front charge to income tax and NICs.
- Institutional shareholders have accepted JSOPs as a share plan structure.
- Entitlement to future growth may be subject to performance conditions.
- The beneficial interest can be forfeited or bought back if the employee leaves employment.
- The rules will specify the treatment of voting rights, dividends and other corporate events both before and after vesting.
- The participant can either receive a fixed number of shares equal to the growth in value of the shares or the shares can be sold and the cash value realised.
- There is a risk of the share price failing so no growth may be realised. Often therefore used in companies where significant growth is likely.
- JSOPs are very flexible, so can be used by both listed and unlisted companies.

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Tax implications

JSOPs are not HMRC approved and so there is a risk of challenge. However, the Revenue has indicated that it would not challenge a JSOP unless it contains unusual features that generate concerns.

For Employees:

The employee will need to pay a small amount for the shares, or pay income tax on their value. The gain on the sale of the beneficial interest in the shares is subject to Capital Gains Tax (CGT).

For Employers:

The company will not receive Corporation Tax relief for any gain on the shares.

Share Plan Partners can advise and help you with establishing JSOP, which will require the design of plan rules, HMRC valuation approval and a trust to hold the shares. Please contact us for more information.

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