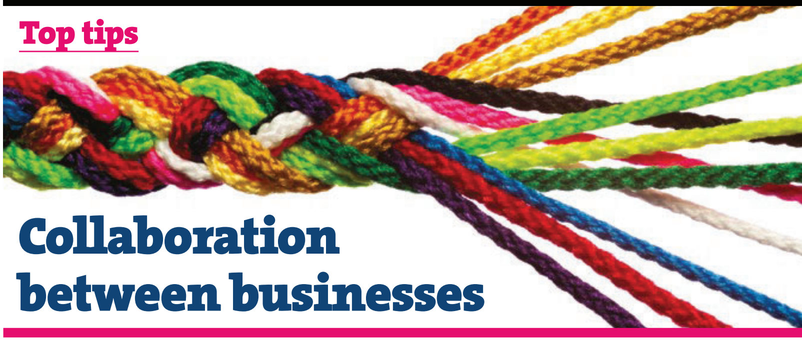
Top tips



Collaboration between businesses

Our Business Club recently examined the popular trend of organisations working together, along with the ingredients for success and pitfalls to avoid.

Collaboration and partnering is expected to be a growing business trend in 2022 and beyond, as it becomes increasingly difficult to succeed in business without effective partnerships with other organisations.

A straw poll of Business Club members revealed that 93% had collaborated with another business in the past three years and 85% were looking to collaborate further in the next three years.

Joining forces is seen as a potential solution to a range of business challenges – from supply chain disruption and impatient customers who want products delivered at ever-faster speeds to talent shortages, rising costs, limited resources, and environmental, social and governance considerations.

Ingredients for success

Teaming up doesn't guarantee success, but there are certain ingredients that will make for good working partnerships. Our Business Club members highlighted shared values as particularly important in ensuring a consistent approach – something that usually comes from finding a business of a similar size and culture to work with.

Collaboration clearly needs to work for both organisations and enhance their respective offerings. It succeeds when it fills a gap for each party involved. Business Club members also pointed to effective communication as essential between all parties. Appointing a project lead and holding regular meetings to maintain progress and keep everyone up to speed is highly recommended.

There are of course different types of collaboration, with varying degrees of involvement and risk. Selecting the right framework will obviously depend on the business opportunities involved, but there are lots of options to explore. These range from referral, outsourcing and sub-contracting to joint ventures and formal partnerships.

Pitfalls to avoid

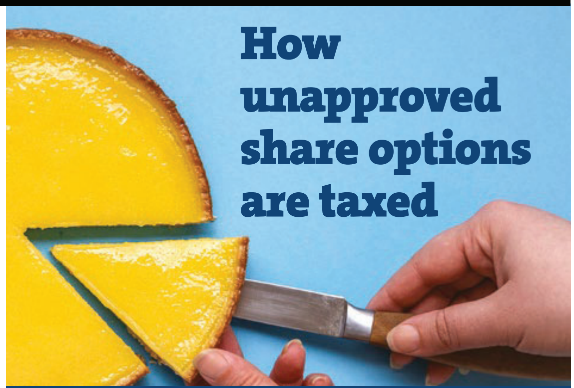
A couple of key collaboration pitfalls identified by club members are:

a) not being realistic about the likely outcome of a joint effort

b) misunderstanding what the respective parties hope to gain from it.

Other issues to consider include insufficient due diligence between the two parties – particularly for long-term collaborations – and the potential risk to vital business assets, including intellectual property, client lists and data.

More at: *https://tinyurl.com/yc8nb7xk*



How unapproved share options are taxed

Unapproved share option plans can be used by employers to reward those who help grow the business, including those not eligible for HMRC-approved options like the Enterprise Management Incentive Scheme.

Individuals are given the option to acquire shares in the business at a future date at a price specified by the company – usually the market value of the shares on the date the option is granted. However, an important advantage of unapproved plans is that employers have discretion to tailor qualifying conditions for share recipients, such as meeting various performance targets.

Recipients of shares pay income tax only when they exercise their option. This is based on the difference between the market value of the shares at that date, and the price paid for them. At the same time, the company will get a corporation tax deduction for the difference between the market value of the shares at that time less the amount paid by the individual for the shares. Unless there is a ready market or buyer for the shares, there should be no national insurance contributions due.

If the share value at the point of exercising the option is lower than the agreed price, then the individual may choose not to acquire the shares and let the option fall away. A new shares option grant could then be negotiated.

For a UK resident offered shares in a foreign company operating in the UK, the UK income tax liability will be the same – but only while that individual is resident and working in the UK. Periods of non-UK residence during the vesting period can be apportioned out on a straight-line basis. When the individual receives shares in the foreign company, they may face a withholding tax charge from the overseas tax authority. This can be avoided by providing that authority with a certificate of UK residency from HMRC.

On the disposal of shares, an individual will pay capital gains tax calculated by comparing the disposal proceeds to the market value of the shares when the options were exercised.

Employers should be aware there is 6 July deadline for reporting unapproved share option plans to HMRC.