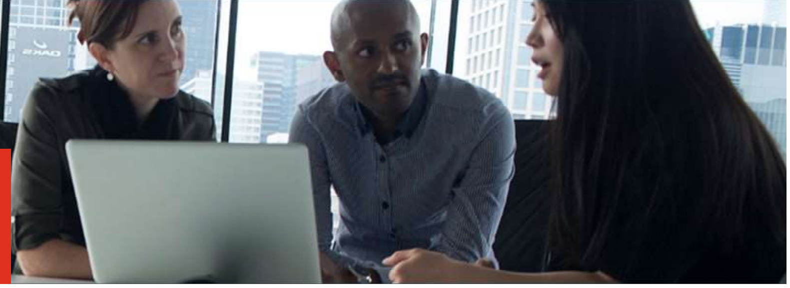
Equity in uncertain times



These are indeed uncertain times and we know that employee share plans may not be at the forefront of your agenda at present. But what we do know from discussions with several clients, is that many are looking for ways to **reduce costs**, **maximise efficiencies** and ensure that once we get through this, we have **retained the right people** in our organisations. From discussions with our clients, we have provided you with some ideas that can be used to address key areas of concern. We are here to help in any way we can, so please do not hesitate to reach out for a chat.

Reducing costs and improving cash flow 01

- **Payroll tax savings:** Based on our experience, many companies over-report the taxable value of their employee equity awards for payroll tax purposes. There can be a significant opportunity to claim back the overpayment of payroll taxes on employee equity awards in prior years that delivers cash back to the business. Consideration should also be given to the timing of payment of payroll taxes.
- **Convert salary to equity:** While the share market is significantly depressed, some employees may be willing to exchange a portion of their cash-salary for equity in the company. While helping to reduce cash costs, this approach may further incentivise employees by giving them some “skin-in-the-game” and potential upside on the company getting through to the other side of this crisis. In many cases this can be facilitated under existing Plan rules.

Maximising efficiencies 02

- **Corporate tax deductibility:** Where you are operating your equity plans globally, review the locations where you are claiming a corporate tax deduction and the amount of the deduction being claimed. Some locations provide for statutory deductions equivalent to amounts taxed to the employee. Are you maximising deductions in all the locations that you operate and thereby reducing the costs of operating your plans globally?
- **Market purchases vs new issue:** For many companies the default is to purchase shares on market to satisfy obligations under equity plans. Where you are using an employee share trust, consider the cash flow advantages that are associated with a new issue of shares and whether this is a viable option for your company.
- **Pre funding your Employee Share Trust:** For companies that are not constrained by cash costs, consider pre funding your EST to acquire shares now at a lower cost to satisfy future equity vestings. This can reduce the future cash costs associated with equity plans.

Retaining and incentivising employees 03

- **Is now a good time for a broad based employee equity plan?** While the stock market is depressed, now may be a time that some employees would look to enter the market and acquire shares. Some companies are considering a broad based employee share purchase plan with a match after a 2 or 3 year holding period. This would give employees an opportunity to acquire shares while the price is low and also encourage share ownership. Given the matching shares will not be delivered for 2 or 3 years, no immediate cash outlay is needed by the company.
- For existing contribution plans consider lowering the contribution limits to enable employees to continue to participate but at lower levels.
- **How do you incentivise employees in a falling market?** Consider what is important to your employees now? Turnaround plans, mega grants, simplified/combined incentive plans may be worth considering.

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