EMPLOYEE STOCK INCENTIVE PLAN

A STRATEGIC SOLUTION FOR ALIGNING EMPLOYEE BENEFITS WITH BUSINESS GOALS

BDO India
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An Employee Stock Incentive Plan (ESIP) is a compensation medium that provides employees with an ownership stake in the organisation. It demonstrates the employer's commitment to sharing its future prosperity with its workforce. This medium is being increasingly adopted by new-age entrepreneurs as well as established companies as a lucrative compensation and retention tool. While various types of plans are prevalent globally, an organisation should adopt one that aligns with its unique philosophy and needs.

Identifying and designing a suitable plan is a challenge that necessitates evaluation of key considerations including the purpose of the plan, industry trends, regulatory requirements and business projections. Our subject matter experts at BDO India help organisations to effectively design, develop, communicate and administer ESIPs for employees in India and across the globe, ensuring the plans are both attractive to the workforce and aligned with the company's objectives.

TYPE OF STOCK INCENTIVES

- Employee Stock Purchase Plan (ESPP)
- Stock Appreciation Rights (SAR)
- Hybrid Plan (combination of any of the above)
- Employee Stock Option Plan (ESOP)
- Phantom Stock Plan (PSP)
- Restricted Stock Units (RSU)

SELECTING THE RIGHT REGULATORY FRAMEWORK

UNLISTED COMPANY	ADDITIONAL REGULATIONS FOR LISTED COMPANY	ADDITIONAL REGULATIONS IN CASE OF FOREIGN JURISDICTIONS
Companies Act, 2013 + Rules	SEBI (SBEB) Regulation, 2014	Foreign Exchange Management Act, 1999 (FEMA)
Income Tax Act, 1961 + Rules	SEBI (LODR) Regulation, 2015	Tax and regulatory requirements in foreign jurisdictions
	SEBI (PTI) Regulation, 2015	

KEY CONSIDERATIONS FOR A SUCCESSFUL ESIP IMPLEMENTATION

TYPE OF PLAN

- Single plan vs. hybrid
- Share settled vs. cash settled
- Revalidation of old plan to align it with present and future requirements and current regulatory framework

THE EMPLOYEE GROUP

- All employees
- Selective employees
- Eligibility criteria to select the employees

THE CAPITAL

- Percentage of capital allocated towards the plan

EXIT ROUTE, IF ANY

- Sale over Stock Exchange
- Promoter Buy Back
- Sale to Trust
- Plan with no defined exit route

THE CONTRIBUTION AND TENURE

- Vesting
- Exercise
- Lock-in, if any
- Forfeiture
- Termination
- Corporate events

GRANT SIZE

- Parameters for allocation, e.g., tenure of employee, performance matrix, wealth creation opportunity, etc.
- Personal negotiation
- Top-Down/ Bottom-Up Approach
- Annual/ Quarterly/ Monthly

HOW BDO INDIA CAN HELP

We collaborate with businesses, both start-ups and corporates, to understand their unique requirements and provide end-to-end support for the seamless development and implementation of the suitable ESIP, ensuring adherence to relevant global regulations.

Identification and Development

- Discussions with stakeholders to identify requirements
- Suggesting an appropriate plan
- Assistance in designing and developing the identified plan
- Assistance in the development of supporting documentation and employee communications, including conducting workshops for employees
- Advising trust route for managing Stock Incentive Plans

Valuation, Accounting and Financial Reporting

- Valuation of shares and options
- Advising on the appropriate accounting treatment and disclosure requirements
- Advising on appropriate accounting for group-wide Stock Incentive Plans and cost cross-charge arrangements

Tax and Regulatory Advisory and Compliances

- Advising on Company law and SEBI regulations
- Tax planning and reporting by individuals in personal tax return
- Assistance in withholding calculations and payroll reporting, considering the beneficial provisions available under the tax laws and tax treaties
- Cost deductibility by the company

Cross-border Involvement

- Overseas tax and regulatory requirements
- Recharging of costs, mark-up required and deductibility of the recharges
- Foreign Exchange Management Act compliances and filing requirements
- Cross-border income sourcing through the use of suitable tools

ABOUT BDO GLOBAL

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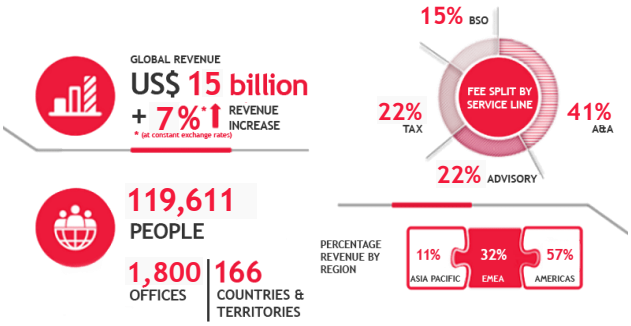

*As of September 2024

ABOUT BDO INDIA

BDO India offers Assurance, Tax, Advisory, Technology Products & Solutions, Digital Transformation, and Managed Services & Outsourcing to domestic and international clients across various industries. Bringing together expertise, innovatively driven and delivered through technology, we empower businesses to navigate their unique challenges with transformative, impactful, client-centric solutions. The team in India comprises over 11,000* professionals, led by more than 350 Partners and Directors, operating out of 20 offices across 14 key cities.

*Includes employees from BDO RISE and BDO EDGE

CONTACT US

PREETI SHARMA
Partner
Global Employer Services
Tax & Regulatory Services
preetisharma@bdo.in

SANTHOSH SIVARAJ
Partner
Global Employer Services
Tax & Regulatory Services
santhoshsivaraj@bdo.in

DEEPASHREE SHETTY
Associate Partner
Global Employer Services
Tax & Regulatory Services
deepashreeshetty@bdo.in

For queries regarding our services, please get in touch with us

For any other queries or feedback, kindly write to us at marketing@bdo.in

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