



Valuation of Employment Related Securities

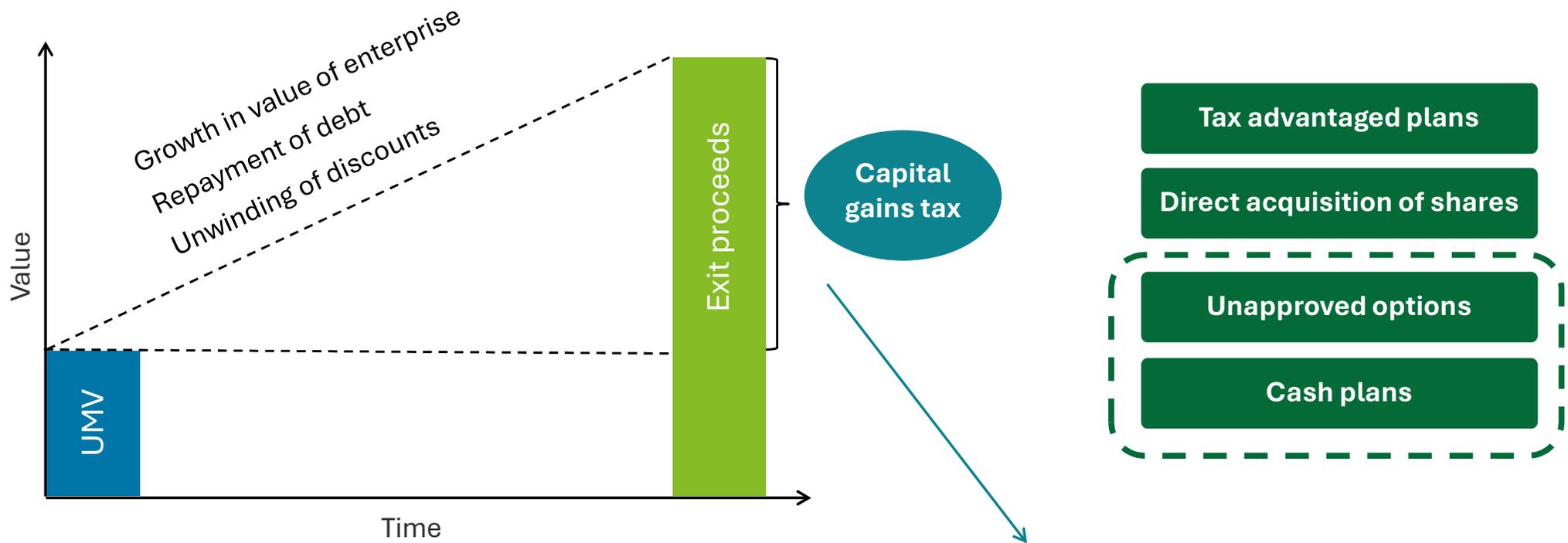
Hannah Tipper | 26 November 2025

Valuation of Employment Related Securities:

How can you balance creating tax efficient structures with tax authority practice, due diligence and enquiries?



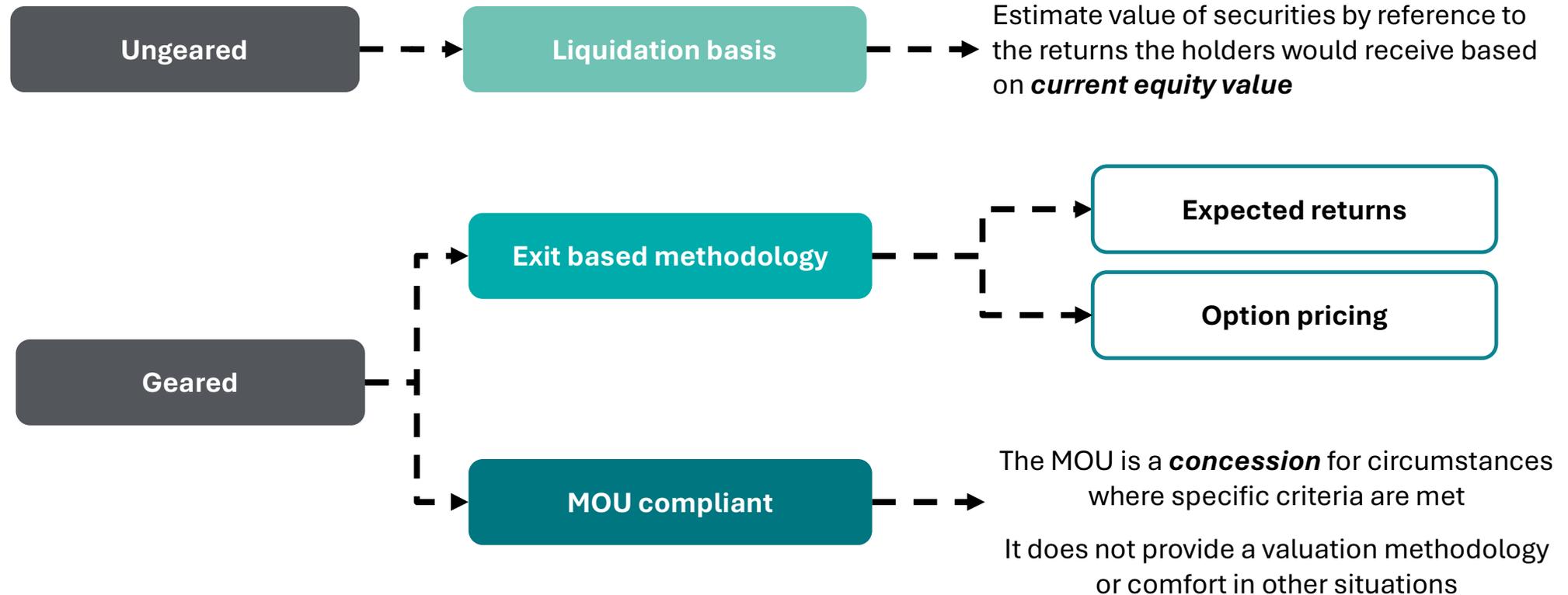
Introduction | Tax efficient management incentives



HMRC: “Difficult to see ‘no value’ in an incentive context”

If no s431 election:
% difference between **Money’s Worth** and UMV at acquisition =
income taxable

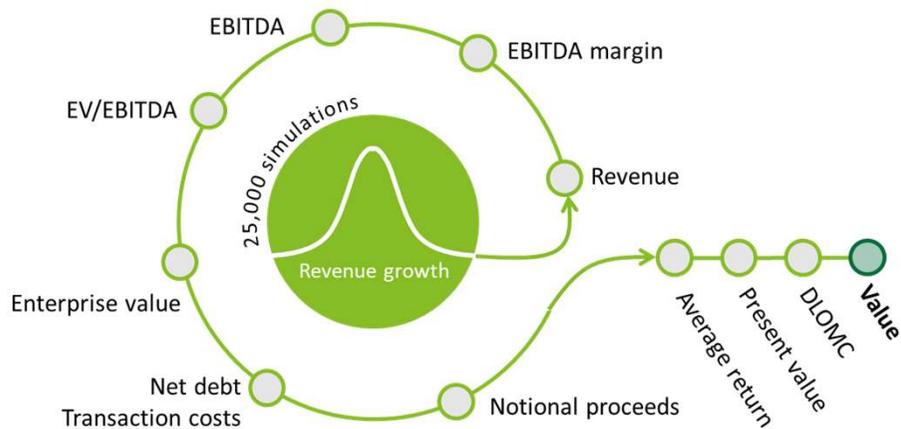
Methodologies | Overview of approaches



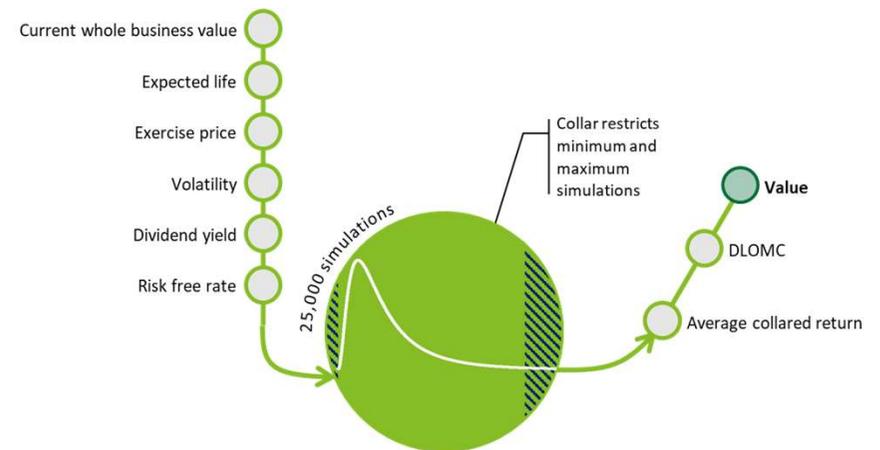
Evidence of value: can be used by tax authorities, including that which crystallises after the Valuation Date
The weight to be placed on it depends on the facts and circumstances
Not the same as Information Standards

Methodologies | Approaches for geared securities

Expected returns



Option pricing



Conceptually intuitive

Favoured by HMRC

Favoured by investors

Requires reliable forecasts

May have limited outcomes

'Cliff edge' if exit close to the hurdle

Opaque

Favoured by certain tax authorities

Requires a current valuation

Does not rely on forecasts

Wide range of outcomes

May overvalue over longer periods

The landscape | Critical reviewers

HMRC

Pre-approval

Only tax advantaged arrangements
Risk assessed review
Wide range of quality
“Without prejudice”
Can be withdrawn

Enquiry

Low risk, high impact
Evidence of value as a crosscheck
Consistency of message
Behaviour of directors / penalties

Due diligence

Evidence of value as a starting point
Support for ‘best estimate’
Absence of s.431 election
Price chips / W&I
Voluntary disclosure

Other critical reviewers

Press, regulators, other stakeholders

The landscape | What do we see in practice?

Evidence of value

Transactions are often the best guide to value

Small blocks of shares – direct comparison

Exit proceeds

PISCES (concession)

Tax advantaged agreements

Not to be relied on for any other purpose

Inadequate disclosure of transactions and/or exit prospects

HMRC can (and will) withdraw

Consistency of message

Alternative forecast cases

Exit prospects

Investor valuations

“It’s not up to taxpayers or their advisers to decide”

Funding rounds

Is it really evidence of value? New vs existing investors

Gross up of preferred equity will typically overvalue

Secondary transactions – Chapter 3D risk

The importance of having a robust, comprehensive, contemporaneous valuation should not be underestimated

EOTs | Increased focus on valuation

HMRC valuation forum:

“A reasonable step would be to commission a valuation”

Section 236H(4)(ca) TCGA requires that the trustees of an EOT take all reasonable steps to secure that:

- The consideration for such a transaction does not exceed the Market Value of the shares at the time of the transaction; and
- If some or all of the consideration on such transaction is deferred, the interest rate applied to the deferred consideration does not exceed a reasonable commercial rate

Market Value: Section 272 TCGA

Hypothetical transaction between anonymous parties

Other considerations:

- SAV do not have a preference on methodology
- Discounts: follow common industry standards
- Information standards: future earnings may need to be reflected (e.g. DCF)
- Debt: belongs to the EOT, not the company (and therefore not reflected in the value of the shares)

Questions?





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