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# Summary of growth shares

November 2024

## Growth shares

**This involves the creation of a new class of shares. The new class of shares contains a hurdle such that on an exit that class of shares would only participate in the proceeds of sale to the extent that the proceeds exceed a certain 'hurdle' amount. The hurdle would be more than the current value of the company.**

The share restrictions for existing classes of shares, eg pre-emption on issue and transfer and drag and tag along provisions, will apply to the growth shares. The hurdle could be set below the total liquidation preference of preference shares.

In addition, if holders of growth shares cease to be employed or engaged by the company for specified reasons, the growth shares would convert to deferred shares.

The growth shares could be issued on a reverse vesting basis so that if an employee left within one year of issue, all of them would convert to deferred shares, but if they remained in employment for up to two years then 75% of them might convert and the employee could retain 25%. It is usual to have the vesting in individual restricted share agreements for flexibility rather than in the articles.



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The creation of the growth class of shares would require a change to the articles and any existing shareholders' agreement and therefore negotiations with existing shareholders.

### Valuation

As the shares can only participate in the proceeds over a certain level it is reasonable to argue that the shares have a low value.

It is not possible to obtain a valuation in advance from HMRC on the value of shares; it is therefore always advisable to obtain an independent valuation.

### Tax

On the acquisition of growth shares, there will be an income tax charge if the price paid for the shares is less than the unrestricted market value.

If the growth shares are acquired at the unrestricted market value, there is no income tax.

On any eventual sale of the growth shares there would only be capital gains tax to pay on the difference between the unrestricted market value on acquisition and the sale proceeds. This is provided that section 431 elections are signed and none of the income tax anti-avoidance provisions apply. The section 431 elections take the growth shares out of the complex restricted shares legislation which can impose income tax charges after the shares have been acquired.



**They are very knowledgeable, responsible and creative.**

Chambers 2025

## The team



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**A super team, would highly recommend.**

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**Ann is super knowledgeable and capable of simplifying complex matters for clients.**

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**Claire provided specialist knowledge and advice in an effective and efficient manner.**

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**Katie Lewis is phenomenally good.**

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