



# Employee Stock Option Plans (ESOPs)

Tax

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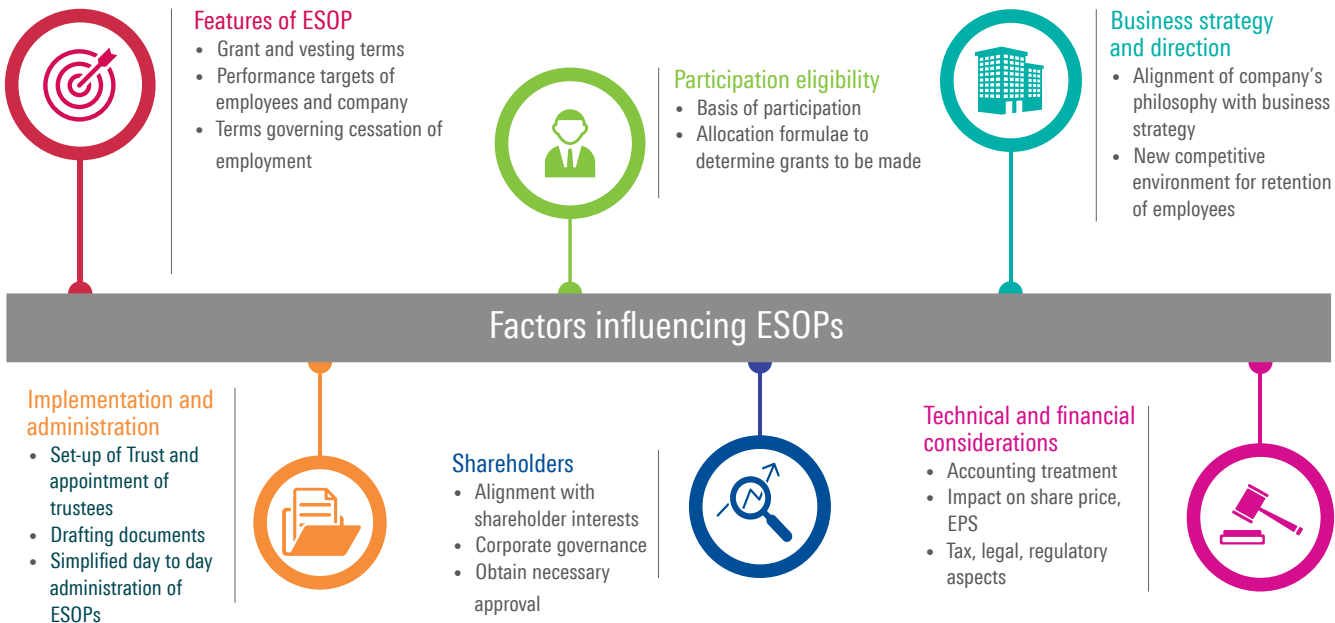


**Employee Stock Option Plans (ESOPs) have been used as a compensation tool by many Indian and multinational companies. Key drivers for implementing ESOPs are retention, enabling high performance, wealth creation and inculcating a feeling of ownership among employees.**

## Are you following the emerging trend?

Companies and many business houses, due to aggressive growth strategies, have increased demand for talent, particularly with professional expertise. Attracting and retaining competent professionals is a challenging task for many organisations. Besides cash rewards, it is important for organisations to make its employees believe that their personal growth is linked to the growth of the organisation. ESOP is an important tool that can help achieve this objective. Besides being lucrative, ESOPs help in imbuing a feeling of ownership among employees. The feeling of ownership can do wonders, especially in case of employees who think of a long-term career with the organisation.

## Key factors influencing ESOPs



## Designing the scheme

While framing and implementing ESOPs, companies need to evaluate various parameters prior to conceptualising their incentive mechanism. Needless to say, this would be based on their business model and overall need to attract, retain, motivate and reward employees. Companies may also consider to fine-tune the mechanics of the plan based on their experience/specific requirements. Following are a few considerations that support the creation of a productive incentive mechanism:

### 01 Meeting stakeholder objectives

#### Employer objectives

- Help in the retention of employees
- Devise reward scheme for employees
- Help achieve performance targets
- Supplement monetary incentives
- Develop/sustain potential to attract talent
- Avoid immediate cash outflow
- Improve productivity and performance

#### Employee objectives

- Create a sense of ownership and loyalty
- Link personal growth to organisational growth
- Build motivation in employees to put in their best effort
- Wealth creation for employees
- Tax effective (viz. long-term capital gain post listing of shares)

## 02 Meeting stakeholder objectives

Key schemes that are implemented include (in alphabetical order):



The scheme is different for every organisation, and the terms of the scheme are drafted based on corporate goals (within the regulatory framework).

## Balancing forces

Planning and implementing ESOP requires balancing of various factors and analysing its impact on corporate and personal goals.



## Our ESOP offerings

Given our knowledge and the teams' expertise in the area, we can provide clients with a suite of offerings for ESOPs. The following diagram provides details about our service offerings which is based on a three steps approach - conceptualise, design, and implement.

Conceptualise	Design	Implement
<b>Business and HR perspective</b> <ul style="list-style-type: none"> <li>Understand the objectives to be achieved by implementing ESOP vis-à-vis company's recruitment strategy, existing incentives to employees and shareholding dilution.</li> <li>Identify employee eligibility based on our understanding of the HR policies and intent of the ESOP.</li> <li>Assist in preparation of an illustrative sensitivity analysis to evaluate costs and benefits/ wealth creation for the employer and employees respectively</li> <li>Advise on selection of an appropriate ESOP which may be in the form of an ESOP/ ESPP/SAR etc. to meet the objectives of the organisation.</li> </ul>	<b>Tax and regulatory perspective</b> <ul style="list-style-type: none"> <li>Advise in relation to income-tax provisions, corporate laws, SEBI requirements, foreign exchange regulations, and compliance requirements under the respective statutes..</li> <li>Leverage our global network of member firms to address cross border tax/ regulatory issues.</li> <li>Advise on accounting implications (under IFRS/U.S. GAAP/Indian GAAP) and the possible financial implications, and identifying required disclosure requirements.</li> <li>Assist in valuation of the company's shares.</li> </ul>	<b>Implementation assistance</b> <ul style="list-style-type: none"> <li>Documentation including FAQ document for employees' reference.</li> <li>Advise on planning mechanisms, for e.g. the Trust route, etc.</li> <li>Present/communicate the organisation's strategy and objectives vis-à-vis the ESOP, to the employees.</li> <li>Provide ongoing assistance with administration of ESOP and compliances.</li> </ul>

# Our credentials

We have a dedicated team of experienced professionals who specialise in the area and provide various organisations with ESOPs related services. Our team provides clients with proactive and innovative approaches for ESOPs. Confidentiality is the key to ESOPs' function. We recognise this fact and work towards meeting our client's expectations by helping ensure access of information only to the relevant persons. Appropriate planning, a focused approach and assistance throughout the planning and implementation stage helps avoid compliance defaults and facilitates putting a tax efficient methodology in place.



## KPMG in India contacts:

**Ajay Mehra**  
Non-Executive Chairman  
T: +91 223 090 2701  
E: ajaymehra@kpmg.com

[home.kpmg/in](http://home.kpmg/in)

**Rajeev Dimri**  
Partner and National Head  
Tax  
T: +91 124 307 4077  
E: rajeevdimri@kpmg.com

**Parizad Sirwalla**  
Partner and National Head  
Global Mobility Services, Tax  
T: +91 22 3090 2010  
E: psirwalla@kpmg.com

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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000.

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