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EMPLOYMENT, PENSIONS AND EMPLOYEE BENEFITS

Incentivising Employees in 2024 and Beyond

by **Gillian Dully**

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Private companies in Ireland face significant challenges in attracting and retaining key talent when competing against public companies with deeper pockets and attractive wide ranging incentive arrangements and work practices.

Challenges and Emerging Trends

The previous four years have been challenging for employees for many reasons. Employees have experienced considerable cost-of-living increases and continue to be motivated by financial and equity-based incentive arrangements.

The cost-of-living crisis is set against a background of workplace evolution where remote/hybrid working is commonplace. Employees are attracted to employers that can offer a broad range of benefits and support lifestyle choices. Employees continue to place increased value on a wide range of matters beyond salary such as work life balance, flexible working arrangements, additional annual leave, health and wellness, diversity, and inclusion.

Employees tend to change employers more frequently than in previous times and employers need to adapt to the ever-changing business landscape if they want to continue to retain key employees and remain competitive.

How can a private company incentivise employees in 2024 and beyond?

Employees with no incentive arrangements might consider establishing equity-based incentive arrangements. There are various types of schemes available which can offer tax efficient benefits which employees perceive as attractive and valuable incentive arrangements. The type and size of the business will influence the suitability of a particular type of incentive arrangement. Revenue approved share scheme arrangements are tax efficient, but they are generally unsuitable for private companies because such schemes must be made available to all employees on similar terms. Unapproved schemes do not generally require Revenue approval or equality of treatment of employees and are more flexible for start-ups and small to medium enterprises.

Whilst some private companies do not consider equity-based remuneration appropriate for their business model, there are a wide range of employee incentive arrangements that an employer can establish, which do not involve the issue of shares to an employee and are worthy of consideration. Such arrangements provide a financial incentive for employees and avoid the issue of shares to employees in a private company.

Employers with existing incentive arrangements should review their current remuneration and incentive arrangement models and examine whether they are fit for purpose in 2024 and beyond. A background of emerging global trends, changing business environments and evolving work practices may require a change in the type of incentives arrangements that an employer might offer to its employees going forward. Employers should consider exploring new schemes or adapting a current scheme which might be more aligned to the future growth of the business and staff retention objectives.

Conclusion

Several issues may need to be considered once an employer has selected the type of employee incentive scheme to be adopted including taxation, any regulatory or compliance requirements, company law, trust law, employment law and equality legislation along with Revenue guidance and practice. Furthermore, a well-designed scheme should address potential pitfalls which may arise during the life of the scheme including share valuations, vesting, take back of shares and the treatment of early leavers and change of control/realisation events.

Any business considering an employee incentive arrangement should seek professional legal and taxation advice at the earliest opportunity to ensure it adopts the most appropriate arrangement for incentivising and retaining key talent and minimises potential issues which may arise at a later stage.

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