

GIBSON DUNN



Executive Compensation & Employee Benefits Update

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The UK Autumn Budget 2026: Executive Compensation and Employee Benefits

This update provides an overview of the key UK employee incentive announcements and what the changes could mean for individuals and businesses.

On 28 October 2026, the Chancellor of the Exchequer, John Healey, delivered his first Budget statement. The Budget contained a number of proposals for companies using share options to attract, retain and incentivise employees. The headline is that there will be a rebrand of the Company Share Option Plan, alongside updates to the Enterprise Management Incentive regime, a reduction in the lifetime limit for Business Asset Disposal Relief, and the introduction of a new 'Founders' Relief' for capital gains tax. The Government also confirmed its intention to reform non-compete clauses.

We set out below an overview of the key employee incentive announcements made and what the changes could mean for individuals and businesses.

At the same time, the Government announced its intention to reform the taxation of company distributions and capital repayments (which may have implications for fund managers or management teams that co-invest alongside external investors) and to introduce double tax relief for UK investors in US limited liability companies and similar entities. We have not summarised these measures in this alert, but please contact the Gibson Dunn lawyer with whom you usually work if you wish to discuss in more detail.

Rebranding and expanding the Company Share Option Plan

The Government is rebranding the current tax-advantaged Company Share Option Plan (**CSOP**). From 28 October 2026, the CSOP will be known as the Enterprise Management Incentive Scheme 2 (**EMI2**). The rebrand is intended to reflect the role of the CSOP/EMI2 as an “option for growing companies that have moved beyond or are not eligible for” the original Enterprise Management Incentive scheme (**EMI1**).

From 6 April 2027, the following key changes will come into effect:

- The maximum value of shares over which an individual may be granted options under CSOP/EMI2 (valued at the date of grant) will be increased from £60,000 to £120,000.
- Employees who hold options under the EMI1 scheme up to the individual limit of £250,000 will be able to additionally receive options over up to £120,000 of shares under EMI2. This is a relaxation of current rules under which the maximum value of shares under option which an individual can hold under the EMI1 scheme and CSOP/EMI2 is capped at £250,000.
- The exercise period of CSOP/EMI2 options will also be increased to 15 years from the date of grant (increased from a 10-year exercise period under the current regime), aligning it with the EMI1 scheme, for which the same change took effect on 6 April 2026. This change will also apply retrospectively, so it will be permitted to extend the exercise period of CSOP options that have already been granted to 15 years.

However, the EMI2 regime will still require the use of market value options which must ordinarily be held for at least three years before exercise to benefit from the full tax advantaged treatment.

The changes will be welcome to companies, including those listed in the UK and/or the US who have UK-based employees, who can now consider CSOP/EMI2 as a genuine vehicle for incentivisation, alongside other conventional long-term incentive plans, and in light of increasing employer costs such as employer's National Insurance contributions which are shielded by these arrangements.

If listed companies do not currently permit the grant of CSOP options to executive directors in their directors' remuneration policy, they should consider whether to implement this tax-advantaged plan and/or ensure their directors can take advantage of the increased individual limit by updating their remuneration policy at their upcoming Annual General Meeting.

Changes to the current EMI1 scheme

The Government also announced changes to the original EMI1 scheme. From 6 April 2027, the exercise period following a disqualifying event will be increased from 90 days to 180 days. The separate notification requirement for EMI1 option grants will also be removed such that grants will instead be reported to HMRC through the existing EMI1 end-of-year return.

Capital gains tax

In the months preceding the Budget, there was widespread speculation that capital gains tax (**CGT**) rates would rise, potentially to align with income tax rates. More recent media reports, however, suggested that the Chancellor had decided against any increase, and this proved to be correct.

Business Asset Disposal Relief

Business asset disposal relief (**BADR**) has been tightened again. BADR reduces the rate of CGT payable on qualifying disposals of business assets, subject to a lifetime limit of £1 million of qualifying gains. The rate of tax on qualifying gains increased from 14% to 18% on 6 April 2026. In the Budget, further tightening was announced with the lifetime limit to be reduced to £500,000 from 6 April 2027, with transitional provisions applying to contracts and share reorganisations entered, but not completed, before that date.

For individuals whose qualifying lifetime gains exceed £500,000, the effective CGT rate on the excess increases from the current 18% rate to the main rates (24% for higher/additional rate taxpayers).

Shares acquired under EMI1 schemes currently qualify for BADR provided that certain conditions are met, so this announcement will have an impact on those close to the reduced lifetime limit.

Founders' Relief

While BADR has been limited, a new Founders' Relief will be introduced, providing a 10% CGT rate on up to £10 million of lifetime gains for qualifying founders of high-growth, innovative companies.

The Government has launched a consultation to seek views on the application of the relief. As currently proposed, for individuals to qualify they must have held 25% of the company's ordinary share capital when the company began trading, have held the shares for at least five years before the disposal and have been UK tax resident for at least five continuous tax years before disposal. Alongside the conditions for the founder, businesses are expected to have to meet certain conditions in relation to turnover, employees and trading status. The consultation closes on 30 November 2026, and the conditions may change in response.

Restrictions on non-compete clauses

Following the Prime Minister's announcement earlier this month on the curbing of non-compete clauses and long notice periods, the Government confirmed that legislation will be introduced to make sure that non-competes "will no longer be a barrier to hiring" for start-ups and scaling firms, and so that workers in the everyday economy are not prevented from moving jobs. Although presented as a measure to help start-ups, the Government says the reforms "will apply across the whole economy".

At this stage, we do not know how the reforms will be introduced. It is also not known whether any prohibition or restriction on the use of restrictive covenants will extend to variable remuneration arrangements that sit outside of an employee's employment contract (such as bonus or employee share plans) and/or restrictions found in shareholders' agreements, partnership agreements and share purchase agreements.

The Government will consult shortly to understand the wider use of restrictive practices and will set out a detailed position in early 2027. The scope of the consultation appears to include restrictive practices beyond just non-compete clauses, so non-solicitation clauses, notice periods and/or garden leave provisions may be considered.

The following Gibson Dunn lawyer prepared this update: [Richard Surtees](#).

Gibson Dunn's [Executive Compensation & Employee Benefits](#) and [Labor & Employment](#) lawyers are available to assist in addressing any questions you may have regarding these developments. Please contact the Gibson Dunn lawyer with whom you usually work, the author, or any leader or member of the firm's practice groups:

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