KPMG Meijburg & Co Tax & Legal

Employee incentive plans

Responding to the changed labor market and the competition for talent

August 2025

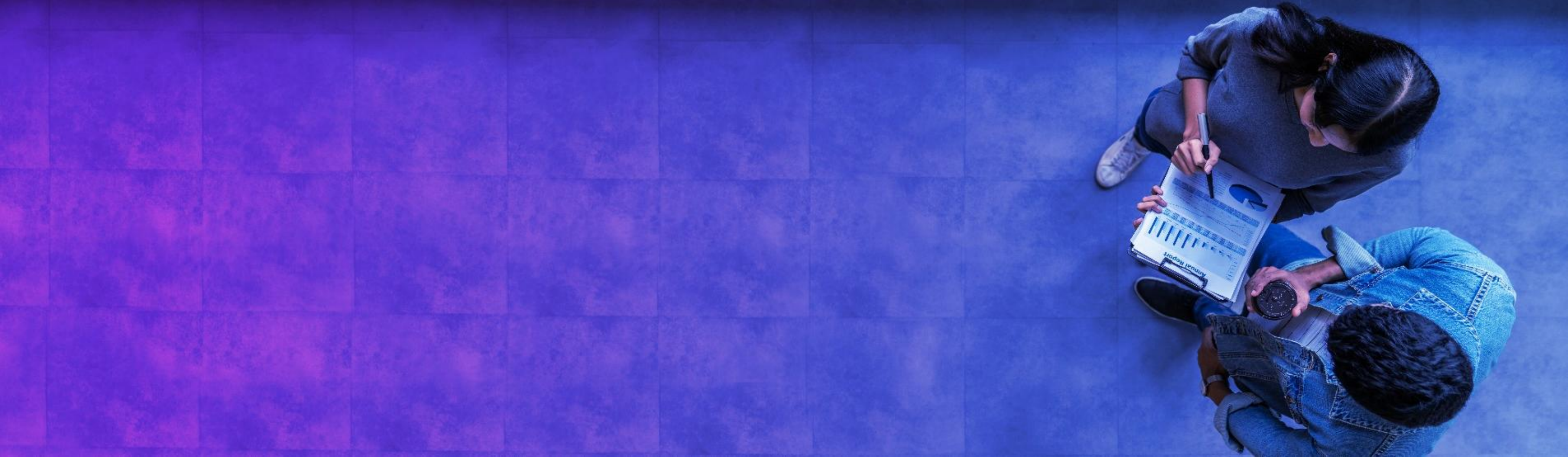
To stand out in today's competitive landscape, it is essential that companies anticipate to labor markets developments, particularly now that employee expectations of the workplace have changed significantly and the competition for talent continues unabated. Rewarding employees is about more than just compensation—it's a strategic tool for boosting motivation and commitment. Effective rewards programs may become crucial for attracting and retaining top talent, fostering an inclusive culture, and to position the organization as an employer of choice in a rapidly changing labor market.

Employee incentive plans are well suited to achieve these goals. They serve as a powerful strategy to enhance motivation, ensure employee engagement, and to make your organization attractive for talented employees.

Employee incentive plans; a new trend?

Organizations are increasingly turning to share-based plans (hereinafter: share plans) or cash-based plan (hereinafter: cash plans) as a powerful tool to reward employees. These plans not only foster greater loyalty by aligning employees' interests with those of the organization but also offer flexibility in a competitive labor market. With a new generation of employees prioritizing engagement and connection with their work and employer, share or cash based rewards are becoming more relevant.

Employee incentive plans, including share-based options, can create significant value by addressing retention and reward challenges. The effectiveness of these plans vary depending on the organization's specific needs and goals. To determine which employee-incentive plan is right for your organization, it is essential to navigate through several key steps. We are happy to guide you through this process and help you select the optimal employee-incentive plan for your organization.



Step 1

Strategic alignment

The first crucial step in establishing an employee-incentive plan is to review the company's mission statement in relation to the intended goal of the share plan. For instance, is your goal to retain employees for the long term, or are you focusing on keeping them until a future IPO or exit? In other words: what is the desired goal? This first step will ensure that the share plan supports the desired outcome for your organization.

Key considerations include:

- Purpose of the share plan: Clearly define the desired outcome of the share plan, such as attracting and retaining top talent, fostering a performance-driven culture, securing funding opportunities and improving work morale and solidarity.
- Competitive benchmarking: Evaluate the share plan according to the standards in the sector and the reward plans of competitors.
- Involvement of stakeholders: Discuss the plan with key stakeholders and collect their input; this will ensure that the objectives and the structure of the plan are aligned.
- International agreement: If you have employees outside the Netherlands, then determine whether it is desirable to roll-out the plan in multiple countries and what this will mean at the local level.

Step 2

Choosing an employee-incentive plan

After deciding on the strategic objectives that have to be realized, there are various types of employee-incentive plans that can be considered. The type of plan you choose should align with your specific goals and depends on the nature of the objectives. Here are some of the most popular share-based award plans to consider:

- Share plan: Employees receive a certain amount of shares (for free); lock-up clauses or other selling restrictions are a common feature of share plans.

✓ *Advantages*: Useful for engagement in the long-term, clear agreement between shareholders and employees.

- Share certificates: Employees are granted share certificates, whereby control over the shares is managed by a trust foundation (*Stichting Administratiekantoor; STAK*) established specifically for this purpose.

✓ *Advantages:* the participants don't have any meeting or voting rights, but only enjoy the economic benefits associated with such shares, for example stock appreciation and any dividends to be distributed.

Stock option update!

A new tax scheme is being introduced to encourage employee participation in startups and scale-ups. This scheme means that employees of such companies will pay less (wage) tax because the basis for income from stock options is reduced to 65%. Additionally, the timing of taxation is postponed until the actual sale of the shares. The intended start date is January 1, 2027. Would you like to stay informed about developments on this topic?
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- Stock option plan: the right of an employee to buy a set number of company shares at a pre-determined fixed price, i.e. the exercise price.

Advantages: useful for engagement and KPIs in the long-term, clear agreement between shareholders and employees. Taxation upon the underlying shares becoming freely transferrable.

- Restricted stock units (RSU): a conditional right to a share issue or share certificates without directly acquiring the legal ownership thereof.

Advantages: clear agreement between shareholders and employees; flexible conditions can be included in RSU plans.

- Stock appreciation right (SAR): a (future) right to receive a cash payment corresponding to the appreciation in a pre-determined number of shares over a specific period.

Advantages: easy to set up, tax-friendly for the company (e.g. CIT deductible).

- Phantom stock: similar to SARs; is a right to a cash payment if the conditions for this are met. In general, dividends or dividend-equivalents are paid out during the period that the phantom stocks are held.

Advantages: easy to set up, tax-friendly for the company, is for the most part economically the same as a normal share plan.

- Sweet equity/hurdle share: a capital instrument potentially offering a high return that is (usually) subordinate to other assets.

Advantages: an excellent instrument to stimulate employees, especially suitable if, for example, the focus is on a future IPO or Exit.

Step 3

Setting up an employee-incentive plan

Based on your company's strategic choices and the selected incentive instrument, the HR, legal and tax specialists of our KPMG Reward team are happy to design a draft equity compensation plan, advise on the possibilities of amending the employment terms and conditions, or prepare a remuneration document, and draft the necessary (individual) documents.

- If you wish, we can assist you in involving the works council, for example by providing support in drafting a request for consent (if applicable).
- If needed, we also offer assistance with requesting a tax ruling to address any taxable benefits and manage other tax aspects of the plan, ensuring compliance and optimizing tax efficiency.
- Once the employee-incentive plan is finalized, we can assist with crucial internal and external communication to ensure clarity on how the plan works, its objectives, and employee expectations.
- Our international KPMG network means we can also evaluate the potential for rolling out the plan across other countries, evaluate what the tax implications for employees living abroad are and ensure the plan fits within the organization's common reward structures in the relevant countries.

Whether you're an SME or a multinational, employee incentive plans are adaptable to suit every type of organization. Want to explore the possibilities for your organization? Contact us to discover how we can tailor an incentive plan to meet your specific needs.

Step 4

Settlement of the participation plan upon termination of employment

Although incentive plans are a great tool for employee retention, there may still be instances where employees resign or are dismissed. In such situations, there are several important points to consider in the context of employee incentive plans:

- Upon termination of employment, the employee incentive plan often needs to be settled as well. The manner in which this should be done is usually outlined in the participation plan (in so-called leaver provisions), where the consequences of the settlement (such as the price for the participation right) generally depend on the reason and timing of departure. This is an important consideration when drafting the plan.
- Leaver agreements come in various forms. A common denominator is often that upon departure, the accrued rights (often fully) must be offered/exercised, with 'good leavers' able to sell/exercise accrued rights at a better price than 'bad leavers'.
- The leaver circumstances are often linked to (employment law) grounds for dismissal, where the more culpable grounds are described as 'bad leaver' situations and other less culpable circumstances as 'good leaver' situations.
- The timing of the expiration of rights under the participation plan is also relevant. Is this, for example, linked to the actual dismissal (requiring any procedure to be awaited) or the moment when the employer (or a group company of the employer) invokes the leaver provision?
- Finally, payments under the participation plan can play a role in the context of severance payments and negotiations related to the termination of employment. Clear agreements on the settlement of the participation plan may prevent potential legal disputes.

Would you like to know more about what employee incentive plans could mean for your organization? Feel free to contact:

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