

A Tale of Two Analyses

Valuation Methodologies	HMRC's Shares and Assets Valuation (SAV) team typically focuses on an earnings-multiple approach grounded in the company's audited accounts. U.S. 409A appraisals commonly use discounted cash flow, comparable company/transaction, or asset-based methods, often combined with option-pricing or probability-weighted expected return models.
Treatment of Funding Rounds	A 409A valuation is often anchored to the most recent preferred stock round price and then discounted (e.g., via a backsolve method and discount for lack of marketability) to arrive at common stock FMV. SAV does not typically anchor to a preferred round price; it values the shares on an open-market sale hypothesis, which can produce a materially different result.
Discount Conventions	Both regimes apply discounts for minority interest and lack of marketability, but the magnitude and methodology can differ significantly. UK valuations of small minority holdings in private companies with no ready market can carry steep combined discounts that are larger than those a 409A appraiser would apply. As a result, 409A valuations are often (though not always) higher than an HMRC valuation.
Treatment of Share Restrictions	For CSOP purposes, HMRC requires the use of unrestricted market value, ignoring any restrictions on the shares. A 409A valuation may take certain restrictions into account depending on their nature, potentially producing a different result.
Validity Periods	An HMRC-agreed valuation for an unlisted company is typically valid for up to 90 days (subject to no material change in circumstances). A 409A valuation is generally relied on for up to 12 months , provided no material event occurs (e.g., financing) that would make it unreasonable to continue to rely on it.
Regulatory Consequences of Getting It Wrong	If a CSOP option is granted below market value, the option falls outside the tax-advantaged scheme and loses its favorable UK tax treatment. If a U.S. option is granted below 409A fair market value, the optionholder faces immediate income inclusion, a 20% additional tax, and premium interest under Section 409A.