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<u>Employee Ownership Trust (EOT)</u>

What is an Employee Ownership Trust?

Although employee ownership of businesses has existed for a long time (the John Lewis Partnership took its first step to employee ownership in 1929) only in recent years has it moved into the mainstream.

The Employee Ownership Trust (EOT) that we know today was created in 2014 by a UK government that was convinced of the merits of employee ownership and keen to encourage more companies to become employee owned.

An EOT is a trust created to hold shares in a company on behalf of its employees, so that they become the owners (indirectly).

Tax Breaks

The EOT offers two significant tax breaks with certain conditions:

- ***The Shareholders of the Company can sell their shares completely free of capital gains tax so long as the EOT acquires a controlling interest (more than 50%).***

- ***Once the company is owned by the EOT a tax-free bonus can be paid to staff as long as all are included and on the same terms.***

An EOT may not be right for every business, but for many it can be a good succession solution.

Why Consider Employee Ownership?

Employee ownership is one of the fastest growing SME business ownership models. For many businesses, it is not just a viable solution to ownership succession but is potentially superior to the alternatives of third-party sale, management buy-out (MBO) or liquidation.

Benefits of Employee Ownership for the:

<u>Retiring/Business Owner</u>

- *Realise the value built up in your business*
- *Leadership succession can be implemented over time*
- *Peace of mind that the business is in good hands*
- *Legacy*

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Business

- *A solid foundation for further growth*
- *Helps to create a more resilient and adaptable business, committed to the long term*
- *Preservation of the business's values and its culture*
- *As well as rewarding everyone's contribution, also enables targeted rewards for key people*
- *Increased productivity. In 2021 the Employee Ownership Top 50 companies enjoyed median productivity growth of 9.4% 'like for like' or 5.2% as a whole, double the UK average of 2.6%*

Employees

- *Employees have a strong reason to be more engaged, committed and motivated, with a clear shared purpose*
- *No need to make personal investment or changes to their employment*
- *A full share in the rewards of success and can receive a tax free bonus of up to £3600 per annum*

Non EOT Shareholders

In order to qualify for the tax breaks outlined above, it is necessary for the majority of the shares to be sold to the EOT. This therefore means that:

- *The outgoing owners can retain a minority shareholding and therefore benefit from any increase in value on any future sale of the company.*
- *Shares can be allocated to the senior executives via a HMRC approved Share Option Scheme such as an Enterprise Management Incentive Scheme, which will incentivise the management team.*

The benefits of a sale to an EOT are therefore quite significant and there is an opportunity to exit a business with the entire sale proceeds being completely free of capital gains. If you feel that this may be of interest, we would be happy to arrange a no obligation meeting to explain in more detail how this could work.

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