EMPLOYEE OWNERSHIP TRUST

Overview & Frequently asked questions

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OVERVIEW

An Employee Ownership Trust (EOT) is a legal structure that allows a company's ownership to be transferred to a trust on behalf of its employees. Here's a general overview of how an Employee Ownership Trust works:

- **Trust Formation:** The first step is to establish the EOT as a legal entity. This typically involves creating a trust deed that outlines the purpose, structure, and governance of the trust. The trust is administered by trustees, who can be a combination of employee representatives, independent trustees, and/or company directors.
- **Share Transfer:** The company's existing shares are transferred to the EOT. This transfer can be partial or complete, depending on the desired level of employee ownership. The company may buy back the shares from existing shareholders or issue new shares directly to the trust.

OVERVIEW

- **Trust Ownership:** Once the shares are transferred, the EOT becomes the legal owner of the company. The trustees hold the shares on behalf of the employees, and their role is to manage the trust in the best interests of the employees as beneficiaries.
- **Employee Benefits:** As beneficiaries of the trust, employees are entitled to various benefits. These benefits may include profit-sharing, dividends, or bonuses based on the company's performance. The specific distribution of benefits can be determined by the trust deed and can vary depending on the company's profitability.
- **Governance and Participation:** The EOT structure typically involves employee participation in decision-making processes. This can be facilitated through mechanisms such as employee representation on the board of trustees or regular employee consultations. The level of employee involvement in governance may vary based on the trust deed and the company's specific arrangements.
- **Exit Strategy:** In the event that employees leave the company, the EOT can provide a mechanism for the purchase of their shares. This allows for an orderly transfer of ownership and maintains the continuity of the employee ownership structure.

BENEFITS

- **Increased Employee Engagement:** By giving employees a stake in the business, an EOT can significantly enhance employee engagement. When employees have a financial interest in the company's success, they are more likely to be motivated, committed, and actively contribute to its growth.
- **Retention and Attraction of Talent:** Employee ownership can be a powerful tool for attracting and retaining talented individuals. It offers a unique incentive for employees to stay with the company in the long term, as they have a vested interest in its performance and the potential to benefit financially from its success.
- **Improved Performance and Productivity:** Studies have shown that employee-owned companies often experience higher levels of productivity and performance. When employees have a sense of ownership and autonomy, they are more likely to take initiative, innovate, and go the extra mile to achieve the company's goals.
- **Succession Planning and Business Continuity:** An EOT can serve as a succession planning strategy, particularly for business owners who are considering retirement or exiting the company. It provides a mechanism for a smooth transition of ownership to the employees, ensuring the business's continuity and preserving its values and culture.

BENEFITS

- **Tax Advantages:** Employees can receive a bonus of £3,600 each without paying PAYE, however NI is deductible. For the seller the amount received is free from any capital gains tax.
- **Positive Public Image:** Adopting an employee ownership model can enhance a company's reputation and public image. It demonstrates a commitment to shared success, employee well-being, and a more equitable distribution of wealth within the organization.
- **Reduced Risk of Hostile Takeovers:** Employee ownership can act as a safeguard against hostile takeovers, as the company's ownership is dispersed among employees. This can provide stability and protection against potential external threats to the business.

FAQ'S

- **Is there anything we as a business, or the employees need to be aware of or do before completion?** The solicitor will be dealing with all the legal documents once we receive clearance from HMRC.

- **Once the transfer has been completed and the EOT goes live, would the director be positioned as a consultant of the business off PAYE or would he still be employed by the company through PAYE?** Yes the director will be consulting to the company via his own company and he will receive a P45 from the company.

- **Are the employees continuing to be paid through PAYE? What would be the tax implications for the employees if any?** There are no changes to the employees as they will still be employed by The company and there are no tax implications except they can be paid bonuses of £3,600 each without paying any PAYE (NI is still deducted though). The bonuses must be paid to all employees if they satisfy certain criteria.

- **What are the accounting and reporting obligations after the transfer to the EOT for both the trust and the business itself?** The trust will need to be registered and I there are annual filings and annual accounts need to be filed for the trust co and the trading company accounts would be filed as usual.

FAQ'S

- **How will the ongoing operation and management of the business be structured under the EOT?** The business will operate as usual and day to day management will be the responsibility of the directors of the company, however the Trust Company will, as the sole shareholder of the company, have ultimate control over the company as it will control the appointment of directors of the company. The Trust Company board will consist of the director (while he is still owed any part of the purchase price), one independent director and one employee director. Most board decisions of the Trust Company will be taken by majority vote however some fundamental decisions such as the sale of shares in the company will require unanimity.

- **What is the advice for implementing employee share schemes within the EOT framework, including issues such as defining employee eligibility, share allocation, vesting periods, distribution of dividends and employee rights within the trust?** There are no issues implementing share schemes in the future and they would work in the same way as any other company.

- **How will the transition to an EOT affect their employment?** Are there any changes to job roles, responsibilities, or terms of employment resulting from the transition. Do we need to amend their main terms of employment? There will be no changes

FAQ'S

- **What are the benefits of employee ownership for an employee?** What are the advantages of being part of an employee-owned company, such as profit-sharing opportunities, potential dividends, or the ability to participate in decision-making processes. See above regarding tax free bonuses, dividends cannot be paid to the Trust and profit distributions over and above the £3,600 bonuses can only be paid once the deferred consideration has been paid in full to the outgoing shareholder, any profit distribution is then taxed on the employee through the payroll. The employees will have some influence on decisions through the input of the employee director however they will not have direct input or a veto on decisions however the trust company will need to take decisions in the best interests of the employees as a whole and taking into account certain criteria that will be set out in the trust deed such as ensuring any bonuses or payments from the trust do not breach the 'all employee benefit requirement'.

- **Will the employees have a say in the management and decision-making of the business?** As above decisions of the trust company will need to be taken in the best interests of the employee however they will not have direct influence in the management of the business. This will remain the responsibility of the directors of the company.

- **Will there be any changes to employee benefits and compensation packages?** I would like clarification on how employee benefits, such as healthcare, life insurance, may be affected by the transition to the EOT, where currently this is only being offered to more senior members of the company and not to all employees? There will not be any changes and the same policy can be applied once EOT has been setup.

FAQ'S

- **How will the performance and success of the business be measured and communicated to employees?** What reporting mechanism needs to be in place to keep employees informed about the financial health and progress of the company. Nothing legally needs to be communicated to the employees and the Board can decide what info to share, it will be a decision for the board as to what information is shared. Having said that the level of information shared would typically be increased once the EOT structure is in place to reflect the employee ownership model however there is no obligation to share sensitive or confidential business information with employees.

- **What training or support can be provided to help employees understand and adapt to the EOT structure?** Are there any educational programs, workshops, or resources that will be available to help employees navigate the transition and understand their rights and responsibilities as owners. We can provide information to share with employees initially. The Employee Ownership Association provides resources and training. For support going forward it would be a good idea to look into joining the association once the deal has completed.

- **How will the EOT impact career progression and opportunities for advancement within the company?** Again this will not change the current progression plans for the employees.

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