Crowe

Welcome

Employee Ownership Trusts

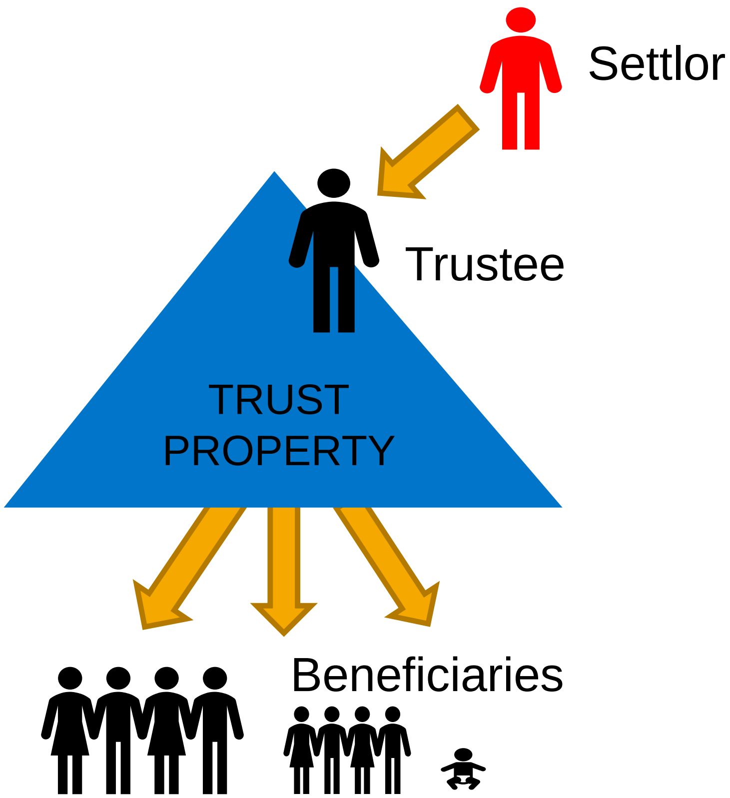
Simon Warne

What do we know of Employee Ownership Trusts (EoTs)?

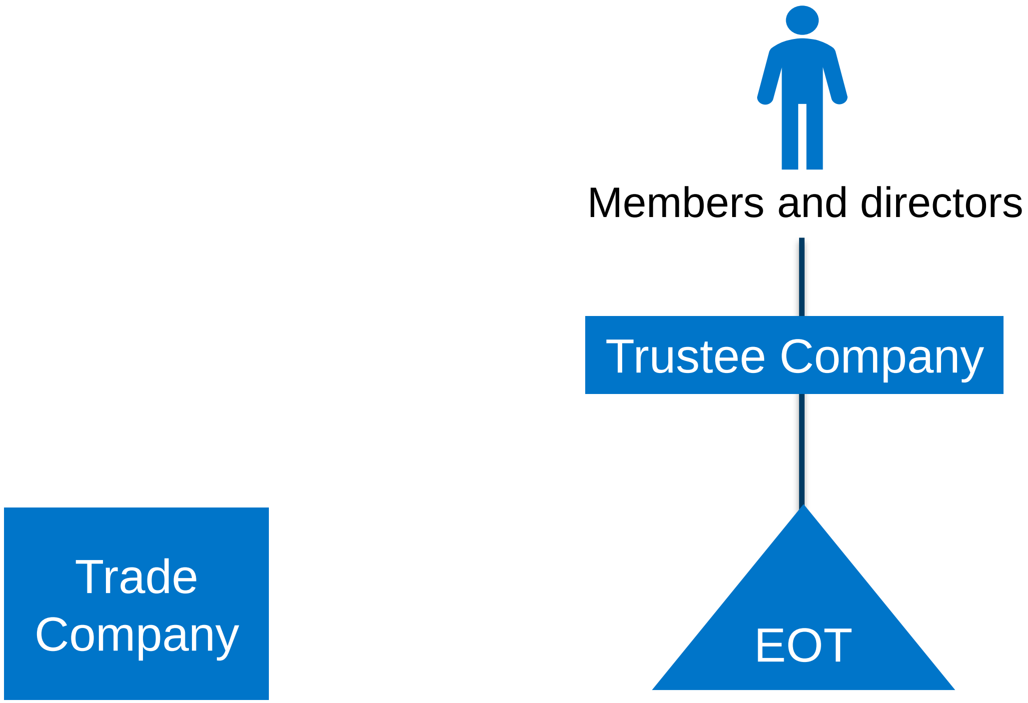
Julian Richer

Disposal to a Trust, sounds complicated, what's that?

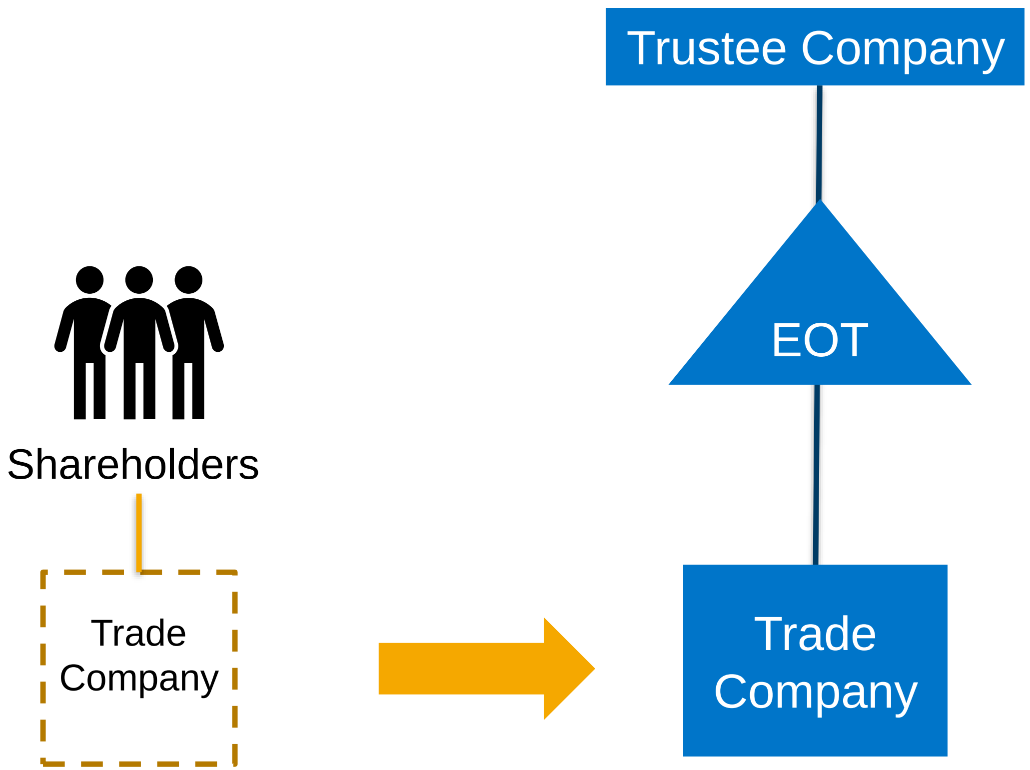
Settlor, Trust Property, Trustee, Beneficiary



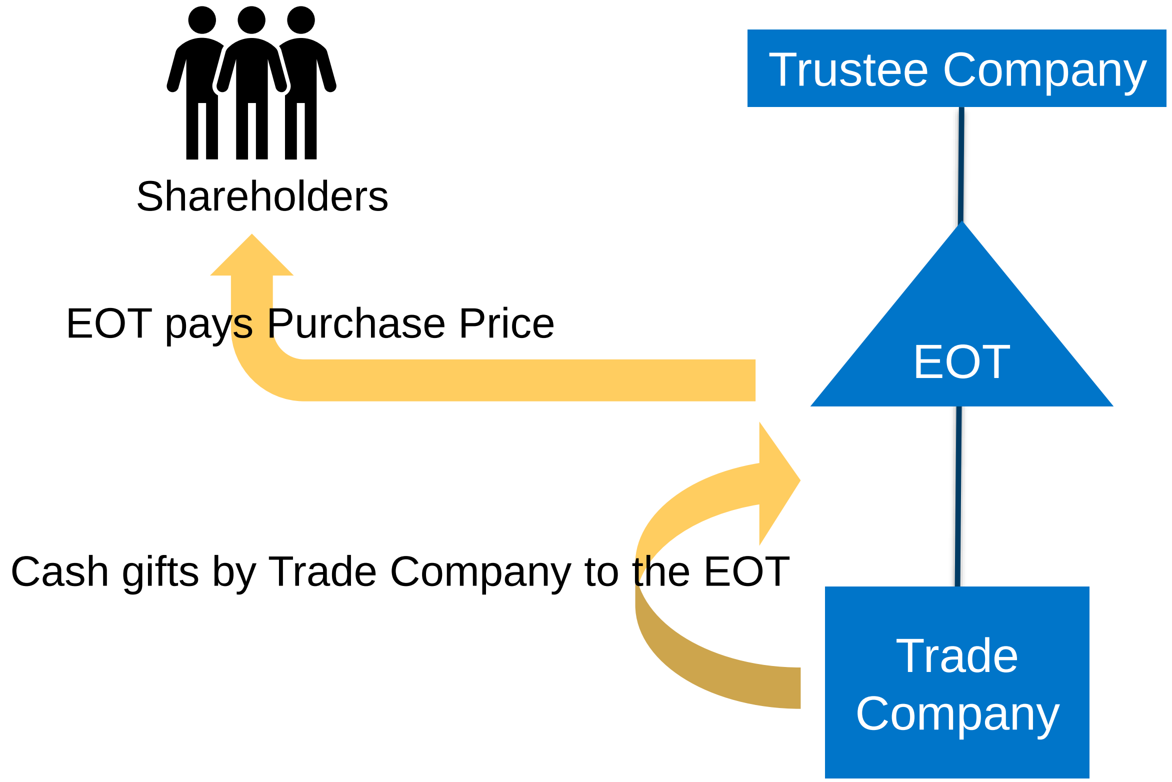
1. Establish Trustee Company and EOT



2. Sell Trade Company shares to EOT



3. Payment of Purchase Price



A big advantage – Tax exemption on disposal of shares to an EOT

- **A correctly-structured EOT disposal is a nil gain/nil loss disposal**

- **So Tax Free**

Other advantages of selling to an EOT

- Motivated Workforce
- Friendly Purchaser (warts an’ all)
- Vendors can remain Directors (within limits)
- Do not need to sell 100%
- Useful where normal Tax Reliefs don’t apply

How does the disposal to the EOT work?

- Disposal at any price up to full MV
- Good to extract cash piles
- Uses own cash flow to finance exit
- But future reserves required

Does the EOT have to acquire all of the company's shares?

- No - but must acquire and continue to hold a controlling interest.

- Shareholders (Eg Julian Richer) wish to retain some share ownership

  – second bite of the cherry?

- Most minorities will wish to participate in the sale. The CGT exemption only applies for disposals in the tax year in which the EOT acquires a controlling interest. If not all shareholders sell their shares to the EOT then a later disposal of shares to the EOT will not be tax-free, although BADR may be available to give a 10% CGT rate.

How do the employees benefit from the EOT?

Will they work in a more collaborative environment? Perhaps, but also…

- Employees can benefit via bonuses which can be paid by reference to remuneration, length of service or hours worked.
- Another tax incentive for EOTs is that companies that are controlled by EOTs are able to pay tax-free bonuses of up to £3,600 per year to each employee (subject to NIC)

How is senior management incentivised?

What happens if the EOT subsequently sells its shares?

- Bear Trap: If the EOT no longer has a controlling interest at the end of the tax year in which the original disposal takes place or in the following tax year then the CGT exemption on the original disposal to the EOT is withdrawn.

- A loss of controlling interest by the EOT thereafter will trigger a CGT liability for the EOT. This is important to the relief.

Straws in the wind … What does the future hold?
Is 0% tax too good to last?

- Generally small scale at present

- CioT view

- Budget consultation?


Time for
questions!

Thank You

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