

Employee Ownership Trusts (EOTs)

“Coming together is a beginning; keeping together is progress; working together is success” – Henry Ford

Looking to sell your business tax free? Having difficulty finding a third party buyer?
Do you want committed staff invested in the business, offering them a tax free cash bonus of up to £3,600 p.a.?
An EOT could be a great option for your business.

Much of the historical success of the John Lewis Partnership has been credited to the fact it is collectively owned by its employees, who directly benefit from the success of the company. This structure, however, is not limited to large corporates and is easily available to SMEs by way of an EOT. By giving shares in your company to employees, through an EOT, employees work together with founders towards the future success of the company and both reap the financial rewards. An EOT also has very generous tax savings, including no capital gains tax on the sale of shares and bonuses free of income tax.

Why setup an EOT

An EOT can be used for succession planning or owners looking to exit the business. It provides an immediate buyer, which can be funded via the company, allowing an efficient transition of the business to people whom they trust and who know it from the ground level up. Not only are there the collective working benefits, but EOTs also benefit from significant tax savings.

By giving a stake in company, through an EOT, employees become involved in the direction and success of the business, becoming more than just employees. Owning a stake in the business keeps employees motivated to drive and improve the performance of the business.

How it works

Typically, the shareholder(s) sell the shares at full market value to the EOT, for cash and loan notes. This debt is repaid by the company paying dividends annually to the EOT. The greater the profit the company makes, the faster shareholder debts can be paid and once the debt has been paid in full, monies can be paid out from the EOT directly to the employees.

Trustees

The EOT would need to acquire a controlling interest (>50%) in the company from the current owners. A corporate trustee would be appointed to manage the EOT and make decisions on behalf of the shareholders. The trustees would have no say in the management of the company.

Valuation

An independent professional valuation would be carried out to agree the market value of the shares. The shares cannot be sold for less than the market value to the EOT.

Tax benefits and conditions

Benefits

- The sale of shares to the EOT should be free of capital gains, income and inheritance tax.
- An annual tax free bonus of £3,600 can be paid to each employee.

The following ongoing conditions must be met:

- A controlling interest (>50%) must be sold to and retained by the trustees.
- Trust property must be applied to the benefit of all employees on equal terms.
- The shares sold to the EOT must be shares of a trading company or holding company of a trading group.

How Can Beavis Morgan help?

To find out more about the benefits of selling your shares under this Government backed tax efficient route, please contact Fiona Cross, Tax Partner, Beavis Morgan on T. 020 7417 0417 or E. fiona.cross@beavismorgan.com for a no obligation discussion.

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