

What is it?

An Employee Ownership Trust (EOT) is a trust set up by the company to buy and own shares in the company on behalf of, and for the benefit of, the employees of the company. Introduced by the government in 2014, they aim to promote employee ownership and provide an opportunity for shareholders to sell shares with no tax being payable.

How does it work?

- Company creates trust
- All employees become beneficiaries of trust, but size of benefit depends on mix of their remuneration, length of service and hours worked
- Shareholders sell shares to trust, proceeds of which are taxed at **0%**
- Must sell more than 50% but doesn't need to be 100%
- Pay-out can be in cash, loan notes or a mix of both over a period of time agreed at the start
- Future management of company determined at start, doesn't necessarily need to change
- Staff can receive £3,600 a year in tax free bonus, basis of which determined at the start

Pros

- No tax unlike trade sale or management buyout (MBO)
- Employees incentivised
- Shareholders can continue in business after without going through earn out
- Doesn't require bank borrowings which is usually needed for an MBO
- Existing owners can continue to manage the company

Cons

- Likely to be lower valuation than trade sale
- Potential to take a long time for shareholders to realise value compared to trade sale or MBO
- Needs careful messaging to employees
- Doesn't work for very small companies, cannot do an EOT if existing shareholders make up more the 40% of the workforce

Succession Planning

As with any form of exit by founders/shareholders, careful consideration needs to be given to the senior members of the team and the roles they fulfil. It is never too early to start looking for talent that would be able to fulfil the roles of the senior managers/owners. Making sure a competent second tier of employees is in place helps to provide exit options for the owners, whether through an EOT, a MOB or a sale to a third party.

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Chris Lang has been working in the Marketing Communications industry for over 30 years. In 2007 he formed Flash Partners Ltd with the aim of providing small and medium sized companies with a full internal finance function without the full time cost.

Chris and his team have worked with many companies over the years to help improve their financial performance, not only by processing day-to-day data but also improving processes and commercial awareness throughout the company. This approach ensures high quality information and therefore better decision making at the top level.

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