

Implementation of an Employee Ownership Trust

What is an Employee Ownership Trust

An EOT is a business structure that can enable private and family-owned businesses to transfer ownership of their business, realising a fair value return for the value surrendered, with significant tax efficiency, whilst also enabling the company to return tax-efficient value to employees in return for their loyalty and hard work. Significantly, the owners can retain a degree of involvement with the business, provided qualifying conditions are met, offering an aspect of flexibility often not available under other capital relief schemes.

The use of an EOT also presents longer-term benefits, by having the shares held by trust for the employees benefit, there is an alignment of goals between the employees and remaining shareholders, therefore resulting in an improvement in employee retention and morale. Using an EOT creates an environment for employee engagement, and consequently drives innovation at all levels.

BACKGROUND

An established casting company specialising in high-quality jewellery making, including precious metal alloying and jewellery prototyping. The company was family founded and owned by a single individual who wished to reduce their involvement and acknowledged that the employees of the company had contributed a great deal to the company's continued success and growth. As such, it was desirable that the sale of the company would not just be of benefit to the seller, but which could also ensure that the employees would benefit in the long term.



We place great value on our team, and as a long-standing and successful business we wanted to be able to reward the people who have grown the business to where it is today and offer them greater involvement in the business they work for going forward.

ISSUES

- Difficulty in identifying buyer - the industry in which the client operated could often have difficulties in finding a buyer.
- Key staff reward - The shareholder acknowledged that certain individuals in the senior management team had been pivotal in the business and intended for them to be rewarded in specific recognition of this input.

Reaching an Agreement

Working alongside the corporate finance team we produced a valuation of the company, whilst also implementing an effective Enterprise Management Incentive scheme for senior management to both reward them for their efforts to date and also to incentivise them to deliver future profits given the sales value was to be paid over a period of 8 years.

Outcome

- The sole shareholder received £4m tax-free cash upon completion of the deal.
- The sole shareholder is to receive a further £10m tax-free in a series of 8 annual instalments.
- The existing employees are incentivised to complete KPI's with tax-free bonuses, ensuring that the installments will be paid.
- Integral members of staff benefitted directly from the implementation of an EMI share scheme.

Assignment Team



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