

Employee
Ownership Trusts
(EOTs)

Employee Ownership Trusts (EOTs)

What you need to know

An EOT is a trust that enables a company to become owned by its employees and can be set up by a company's existing owners, perhaps as part of their exit or succession planning strategy, or by founders starting a new business which they wish to be employee-owned.



Benefits of an EOT

- **No need to pay dividends** means **cash** can be **reinvested** in the business and staff.
- Enhanced **employee motivation and retention**.
- Companies owned by **EOTs** are also able to **pay tax-free cash bonuses** to their employees of up to £3,600 per employee per year.
- **Shareholders** get a full **Capital Gains Tax exemption**.



Governance

The **governance structure** of an employee-owned business typically consists of a **corporate trustee, the board of directors, and a form of employee council**.



Qualifying Conditions

- The **company** being sold must either be a **trading company**, or the **holding company of a trading group**.
- All **eligible employees** must be entitled to **benefit from the trust on equal terms**.
- The **trust** must **control** the company with **more than half the shares, votes** and right to **dividends** and **assets**.
- The **number of employees** must be **2.5 times** the number of **director shareholders**.

The EOT Process

1

Determine if a sale to an EOT is appropriate.

Careful **consideration** must be given to ensure that **employee ownership is appropriate** for the business.

2

Get tax advice.

We will **confirm tax relief** is available and obtain **appropriate clearances from HMRC**. We will **continue to advise through the process and beyond**.

3

Carry out a valuation.

The company will need to be **valued** to establish a **fair market value** for the **sale to the EOT**.

4

Negotiate terms.

The **vendor shareholders** will need to **negotiate terms of the sale** with the **trustees** of the EOT. This will include agreeing the **sale price and payment terms**.

5

Secure funding for the sale.

The EOT will need to ensure it will be able to **secure the funds necessary** to **purchase the shares**, including possibly **external borrowing**.

6

Arrange governance.

The **trustees of the EOT** will be responsible for **overseeing the trust's activities**.

7

Get legal documents drafted.

Solicitors will draft documents to transfer the **ownership to the trust**.

8

Completion.

Once the **legal documents have been agreed** the sale will **complete on the agreed date**.

CONTACT US

If you have any questions or would like to find out more about Employee Ownership Trusts, please contact a member of our team.



Pete Miller

Head of Corporate Tax

petemiller@jerromsmiller.co.uk

0121 693 5000

+44 (0) 798 435 3462



Nick Wright

Associate Director

nickwright@jerromsmiller.co.uk

0121 693 5000

+44 (0) 789 120 3889



Sam Wightman

Corporate Tax Assistant Manager

samwightman@jerromsmiller.co.uk

0121 693 5000

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