



# Employee Ownership Trusts

**Wilson Wright has a team of experts able to assist clients to take advantage of and implement an employee ownership trust (“EOT”). We can advise on the requirements, as briefly set out below, and offer guidance on all other related aspects, helping to achieve the best possible outcome for you and your business.**

## What is an Employee Ownership Trust?

EOT's were first introduced by the government in September 2014 to encourage business owners to set up a corporate structure similar to that of John Lewis.

This special form of employee benefit trust promotes a structure whereby, through a trust, the employees of the company own all or most of the shares in the company.

To promote this type of ownership model, the Government introduced attractive tax incentives for the business owners in order to encourage them into the employee-ownership model. However, to qualify, the employee-ownership model needs to be structured in a particular way.

## How does an Employee Ownership Trust work?

A qualifying EOT is established with trustees appointed. Typically, in order to protect

any individuals operating in the capacity of trustee from personal liability, a private company is used as a corporate trustee of the EOT.

The shareholder then sells their shares to the EOT, for market value, under a share purchase agreement.

The profits generated by the company going forward can then be used to make contributions to the EOT, which in turn pays the outstanding amount due to the selling shareholder.

## Trading requirement

The company must be a trading company or the principal company of a trading group, whose activities do not include, to a substantial extent, activities other than trading, such as, property rental and dealing in investments.

## Other qualifying conditions

- Any application of EOT property, or the payment of tax-free bonuses of up to £3,600 per eligible employee per year, must be made on the 'same terms'. However, subject to certain restrictions, exceptions to 'same terms' include differentiations on the basis of remuneration, length of service and hours worked, and to exclude certain

employees who have not met a minimum service requirement or are subject to disciplinary proceedings.

- The EOT must retain, on an ongoing basis, at least a 51% controlling interest in the company.
- The number of continuing shareholders (and any other 5% participators) who are directors or employees must not exceed 40% of the total number of employees of the company or group.

## What are the advantages

- The EOT, on behalf of the employee, can buy shares in the company without the employees using their own funds.
- Shareholders receive full market value for their shares.
- No capital gains tax, income tax or inheritance tax liabilities should arise on the disposal of a controlling interest in the company to the EOT.
- Expertise of the shareholders can be retained within in the business during the transition period.
- Employee ownership can encourage greater employee engagement and commitment, also creating greater drive for innovation.



## Governance of the EOT

Trustees must operate in the best interest of the beneficiaries, therefore careful consideration needs to be given to the selection of trustees or the directors of the trustee company (if applicable).

To assist with the management of the inherent conflicts of interest that can arise, the adoption of a policy of how employees are to be represented and consulted on an ongoing basis can be implemented. In addition, the trust deed and the relevant constitutional documents (e.g. articles of association) should be constructed to ensure that potential conflicts of interest are mitigated.

## How Wilson Wright can help

As outlined above, the EOT legislation is complex and there are a number of conditions that must be satisfied for the setup of EOT. It is important to take expert advice when considering whether or not the qualifying conditions are met which is where we can help you.

At Wilson Wright, we understand the importance of businesses having sufficient time to concentrate on those things which matter most to them.

One of our aims is to ease the compliance burden by being proactive and forward thinking so that your time can be focused on the day-to-day running of your company.

This factsheet covers the main principles of EOT.

Please note that it should be taken as a general introduction only and our team would be happy to discuss this with you in further detail.

Our expert team both understand and have experience of implementing EOT and would be happy to assist with any matters relating to this.

**To find out more about what they can do for you, visit: [wilsonwright.com](http://wilsonwright.com) or call 020 7832 0444**

## MEET THE TEAM

If you require further information or guidance on any of the matters in this guide, do not hesitate to contact the Wilson Wright team.

**For full details of our services please visit [wilsonwright.com](http://wilsonwright.com) or call 020 7832 0444.**



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