



Share Schemes – Employee Ownership Trust (EOT)

This is still a relatively new concept, introduced as an alternative exit mechanism for certain owner managers who do not want to sell out to a large entity.

Overview

Not so much a share scheme for employees but rather an exit strategy for the founders, which also provides longevity and security for the business and its staff.

A controlling shareholding in the company is sold to the EOT, which benefits the workforce. This can be funded from profits or working capital over a suitable “deferred” period, or by an external lender.

Legal documentation can be used to ensure that the founder(s) still retains some control after the sale to the EOT and legal measures can be put in place to make it difficult for the trustees to ever sell the company, if required.

Main tax benefits

When the owners sell to the EOT they pay no Capital Gains Tax (CGT).

Annual tax-free bonuses (but NIC due) available for employees up to £3,600.

The main pitfalls

The EOT as an exit vehicle needs to be planned well in advance with the employees (experience suggests typically around two years) to ensure the right culture is in place and everyone “buy into” the process.

Several detailed conditions must be fulfilled to enable the favourable CGT treatment for the vendor(s).

Conditions must continue to be met after the sale, otherwise the CGT charge could be clawed back and levied on the Trustees. The vendors also need to be careful in the initial post-sale period.

There are some restrictions on employees benefitting from the trust if they are already a shareholder.

N.B. The above is based on current tax legislation but should not be construed as formal tax advice.



To find out more about our tax consultancy services contact Tax Director Jon Miles.
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About Us

We are the largest independently-owned accountancy practice based solely in Bath. We specialise in advising owner managed businesses, private individuals and their families. And pride ourselves on providing great service and innovative solutions.

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