What are Employee Ownership Trusts (EOTs)?

initium CORPORATE FINANCE

Employee ownership and the EOT model at a glance

Employee ownership: potential benefits

25.5%
Average increase in operating profit*

2x
The UK Employee Owned (EO) sector has doubled since 2020

12%
Average increase in productivity

£42bn
contribution to UK GDP by EO firms

- Owners can step back, realise value in the business and reward the people who make it great
- Co-owned companies tend to be more successful, competitive, profitable and sustainable
- Employee-owned businesses are better at recruiting and retaining talented, committed staff
- Improved working culture – and a great selling message for your customers

Source: Employee Ownership Association; *percentages refer to UK's Top 50 employee-owned businesses

The EOT checklist

An EOT is a great option: but is your business right for this model?

- ☑ In an EOT, a business becomes majority **owned by the workforce**
- ☑ Its an increasingly **popular exit route** for business owners and comes with a significant tax incentive - you pay only half the CGT you would pay on a trade sale
- ☑ It's popular with staff, and typically creates an **engaged, committed workforce**
- ☑ The staff will be beneficiaries of a Trust, not shareholders – **and no staff member has to invest** their own funds
- ☑ **An EOT is complex** and requires understanding and execution of commercial, technical, legal and cultural elements
- ☑ As a seller, **you cannot retain control** post sale – a board of trustees will assume governance of the business, and the management team will lead it
- ☑ This is a government initiative, and so **HMRC must be satisfied** with your business' valuation and change of control
- ☑ An EOT won't be suitable for every business, so undergoing an **initial suitability assessment** is absolutely critical

Key facts on EOTs

100%

Tax efficient
12%
Capital Gains Tax on EOT proceeds payable by selling shareholders compared to up to c.24% for a trade sale equivalent

Empowering staff
51%+
Majority ownership transferred to your team

Financial incentives
£3,600
Annual tax-free bonus for qualifying staff

*As per current HMRC guidance CG67800

> "Initium is perfectly placed to advise you on your next steps – we became employee owned in 2022"

If you're considering an EOT, the first thing you need is expert advice, from an advisor who knows first hand. Call Initium on **0118 207 9800** or email info@initium.com