The Employee Ownership Trust (EOT)

David Craddock Consultancy Services

Founder & CEO

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The Employee Ownership Trust

The Employee Ownership Trust has become a very popular method for existing shareholders to exit their company. At this time when trade buyers have largely retreated from the marketplace, the EOT offers a seriously tax-efficient, commercially effective, and comparatively painless way to sell the company.

The headline tax point: the capital gains tax on sale is zero and there is no exposure to income tax either. The sale proceeds, linked to the whole company value of the company, can be taken all in one payment if the company can afford or, alternatively, as a series of deferred consideration payments over whatever time-period is manageable for the company. The deferred consideration does not have to appear on the balance sheet, thereby protecting the creditworthy status of the company in the eyes of the business community.

The exiting shareholders can remain as directors, remunerated or otherwise, of the company that they have sold and, also, be directors of the trustee company. They can continue to have influence, therefore, offer mentorship to the successor management and protect any deferred consideration yet to be paid to them.

David has been advising on employee share schemes and employee share trust arrangements for over 35 years. He is a recognised authority in the field—in the UK, USA and worldwide—and is the author of the book *Tolley's Guide to Employee Share Schemes*.

Service from Design to Completion

David advises on every aspect of the implementation process, working personally with the client at each stage, and offers the solutions and expertise in all the technical questions that must be addressed during the course of the consultation.

David is also an expert share valuer, operating as the Technical Secretary and Advisor to the Share Valuation Worked Examples Group that meets quarterly with HMRC. He is also a member of the Steering Committee of the ESOP Centre, Economics Policy Director of the Employee Shares Policy Forum and the Educational Director of The ESOP Institute.

Please visit David's website for a full range of testimonials, or give him a call to schedule an appointment.

The EOT Implementation

The whole process can be undertaken and completed in a short time span, typically over four to six weeks, and is executed under the protection of principles that are set out in statute. The implementation is supported by communications with employees to enable them to see the benefits and opportunities of the company being controlled into the future by an EOT. The employees can have the attractive feature offered to them of tax-free bonuses for an EOT-owned company.

The new management can be offered individual share options with significant tax reliefs and exemptions and with the opportunity for personal gain in the future linked to the growth of the company. In the statutory life of the EOT to date, companies that have embraced the EOT have found that the security and safety it offers provides an ideal business environment for company growth.

Since Finance Act 2014 introduced the EOT, some 500 companies have taken the EOT route to a company sale. The ownership by the EOT of the shares of the company in perpetuity stabilizes the independence of the company and reinforces in the employees' minds confidence of continuing employment.

Other ESOP Exit Strategies

In a consultation on exit, as well as discussing the advantages of the EOT, discussion should also be given to the Employee Share Trust ("EST") which allows a more piecemeal sale approach over several years. The capital gains tax rate for the EST (as distinct from the EOT) is 10%. Alternatively, the company owners may prefer a model that allows them to maintain ownership into retirement while taking a substantial dividend on their shares.

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