We work collaboratively with our clients and their advisors to support the implementation and ongoing administration of a diverse range of employee incentive arrangements.

Employee Ownership Trusts (EOTs)

Working in Partnership with Employers

What are EOTs?

An EOT is a trust which holds a controlling interest in a company for the benefit of its employees. This form of employee ownership model has become increasingly popular as a number of pioneering companies adopting this structure have become some of the most successful in their markets, with loyal and well motivated staff. The UK government encourages employee ownership by offering tax reliefs for those adopting this model.

Tax reliefs are available for an EOT which meets certain conditions.

The following is a brief summary and should not be relied on alone. The tax reliefs are as follows:

- Where an EOT acquires a controlling interest in a company during a tax year, any shareholder who sells shares to the trust during that year is not liable to capital gains tax (CGT) on such a sale. Instead, the trustees are treated as acquiring the shares for the original shareholder's base cost, and so any gain that would otherwise have been taxable on the seller is included in any gain later made by the trustees if and when they sell the company.
- The company can pay bonuses each year to employees free of income tax (but still liable to National Insurance contributions (NIC)) of up to £3,600 per employee.
- No liability to inheritance tax arises on any transfer of shares into the EOT.

The key conditions for the CGT relief are as follows:

- The company must be a trading company or the holding company of a trading group when the disposal occurs, and until the end of the tax year.
- The trust did not hold a controlling interest at the beginning of the tax year but it acquires such an interest during the year and continues to hold it until the end of the year. The trustee may acquire shares from different shareholders at different times during a year and the relief may be available to all those sellers.
- A controlling interest means more than 50% of:
  - the shares;
  - the voting power;
  - entitlement to profits available for distribution; and
  - entitlement to assets available for distribution.

  However, the trustees are permitted to waive dividends if the trust deed allows them to do so.
- There must be no provision in any document that can allow the trustees to lose their controlling interest at any time in future without their consent.
- The trust must meet the "all-employee benefit" requirement at the time of the sale and continue to meet that requirement for the remainder of the tax year. Briefly, this means that any distribution from the EOT to employees must be proportionate to their rate of pay and/or length of service and/or hours of work (on a basis to be chosen by the company), except that any employee who (with "associates") holds 5% or more of the shares must be excluded from benefiting.
- There must be no power for any person to change the terms of the trust in such a way as to cause this test to be failed in future.
- There is an exclusion for very small companies, i.e., briefly, those where at any time between 12 months before the sale to the EOT and the end of the tax year in which the sale takes place, shareholders who each (with their associates) hold at least 5% of the shares together represent more than 40% of the total of employees of the company.

If any of the above conditions ceases to be met before the end of the tax year following the year in which the relief was claimed, the CGT relief is withdrawn and the sellers of shares to the EOT are charged to tax on their gains.

The tax relief for bonus payments is subject to similar conditions:

- The payments must not exceed £3,600 per year per employee;
- The payments must not be regular wages or salary;
- The payments must be made under a scheme;
- All employees of the company or group must be eligible to participate (although those with less than a qualifying period of employment of up to 1 year may be excluded);
- The payments must be proportionate to rate of pay and/or length of service and/or hours of work, and all employees must receive something;
- The employer must have been a trading company or member of a grading group throughout a qualifying period normally of 12 months;
- The trust meets the all employee benefit requirement and the controlling interest requirement described above;
- The ratio of office holders to total employees must not exceed 40%;
- The company must not be service company; and
- The payment must not be funded through sacrificing any pay or benefits (for example under a flexible benefit plan).

Why EOTs?

EOTs are rapidly becoming a popular means of enabling company owners to realise the value of their companies without abandoning the workforce to new management in an external takeover. The sellers may receive the full market value of their shares, normally funded by the company out of its profits over a period of years, and often with the support of bank borrowing. Meanwhile, the employees are likely to feel more secure and better motivated in the knowledge that the company is now owned entirely for their benefit and, once the proceeds have been paid to the sellers, without any need to support dividends and other distributions to founders or external shareholders

Why Choose Fiduchi?

Working in partnership with you

Independence

As a management-owned business, Fiduchi is well positioned to provide flexible solutions to clients. In addition, our independence allows us to work with the best advisors, and other third parties, for each individual client.

Experience

As a core Fiduchi service, the Employee Incentives Team has vast experience helping a broad range of employers achieve their employee attraction, retention and motivation goals through their incentive arrangements.

Personal Service

We believe in the value that a personal approach to client servicing brings. Clients have clear lines of communication with team members who understand their specific requirements.

Scope of Service Offering

With true expertise in each area of our service offering we are uniquely positioned to apply our solutions driven approach to satisfy multiple service requirements in a seamless manner.

Regulation

Services are provided from Jersey and London giving clients the comfort that stable, well regulated jurisdictions, which have been at the forefront of employee incentives servicing for decades, brings. Fiduchi Limited is regulated by the Jersey Financial Services Commission.

If you would like to know more about our Employee Incentives or about Fiduchi, please contact:

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