

# Key Facts

## Employee Ownership Trusts

Employee Ownership Trusts (EOTs) were introduced by the UK government in 2014 to encourage entrepreneurial owners of trading companies to establish an employee ownership model. An EOT is a special form of an employee benefit trust, specifically designed to facilitate employee ownership.

### Advantages of an EOT

- Buy-out terms are largely within the owner's control
  - Employee buy-outs have a good record of succeeding
  - Avoids the commercial risk of disclosing confidential information to potential trade buyers
  - Employee buy-out via an EOT can be more attractive as:
    - It recognises the contribution employees have made to the success of the business
    - Provides continuity for employees, customers, suppliers and other stakeholders
    - The business ethos is more likely to continue intact, maintaining a 'stewardship' mentality reinforcing employee engagement and commitment
  - The trust model provides a stable and long-term method of ownership
- The trustees of the EOT must restrict the application of any settled property (the shares) for the benefit of all eligible employees on the "same terms".
  - The trustees 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 (and any persons connected with such employees or directors) must not exceed 40% of the total number of employees of the company or group.
  - Trust property must generally be applied for the benefit of all eligible employees on the same terms, but the trustees may distinguish between employees on the basis of remuneration, length of service and hours worked.

### Key Qualifying Conditions

There are five key conditions to meet to carry out a qualifying sale of a business to an EOT:

- The company whose shares are transferred must be a trading company or the principal company of a trading group.
- An EOT will be of particular interest to controlling shareholders who do not want to sell to a third-party buyer.

### Why Establish an EOT?

The UK government believes that more companies should consider this mode of operation and that by offering generous tax benefits, owners may consider this as a viable exit option on terms that help ensure their business legacy endures.

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Shareholders should be able to sell some or all of their shares to an EOT for full market value, without incurring any capital gains, income or inheritance tax liabilities. Furthermore, there should be no tax on the subsequent receipt of the purchase price by the former shareholders.

### How Can Trident Trust Assist?

Established 40 years ago, Trident Trust is an independent, privately owned global provider of corporate, trust and fund administration services, with over 900 employees. We provide independent trustee services to a wide variety of trust structures, owning a diverse range of assets from property to substantial operating businesses.

Since the creation of EOTs by the UK government, we have worked with professional advisors to increase our expertise in establishing them for successful trading businesses. We are also a supporter member of the Employee Ownership Association.

If you would like to discuss how we may help you, please contact James Ramsden, Matt Toussaint or Steve Turner:

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