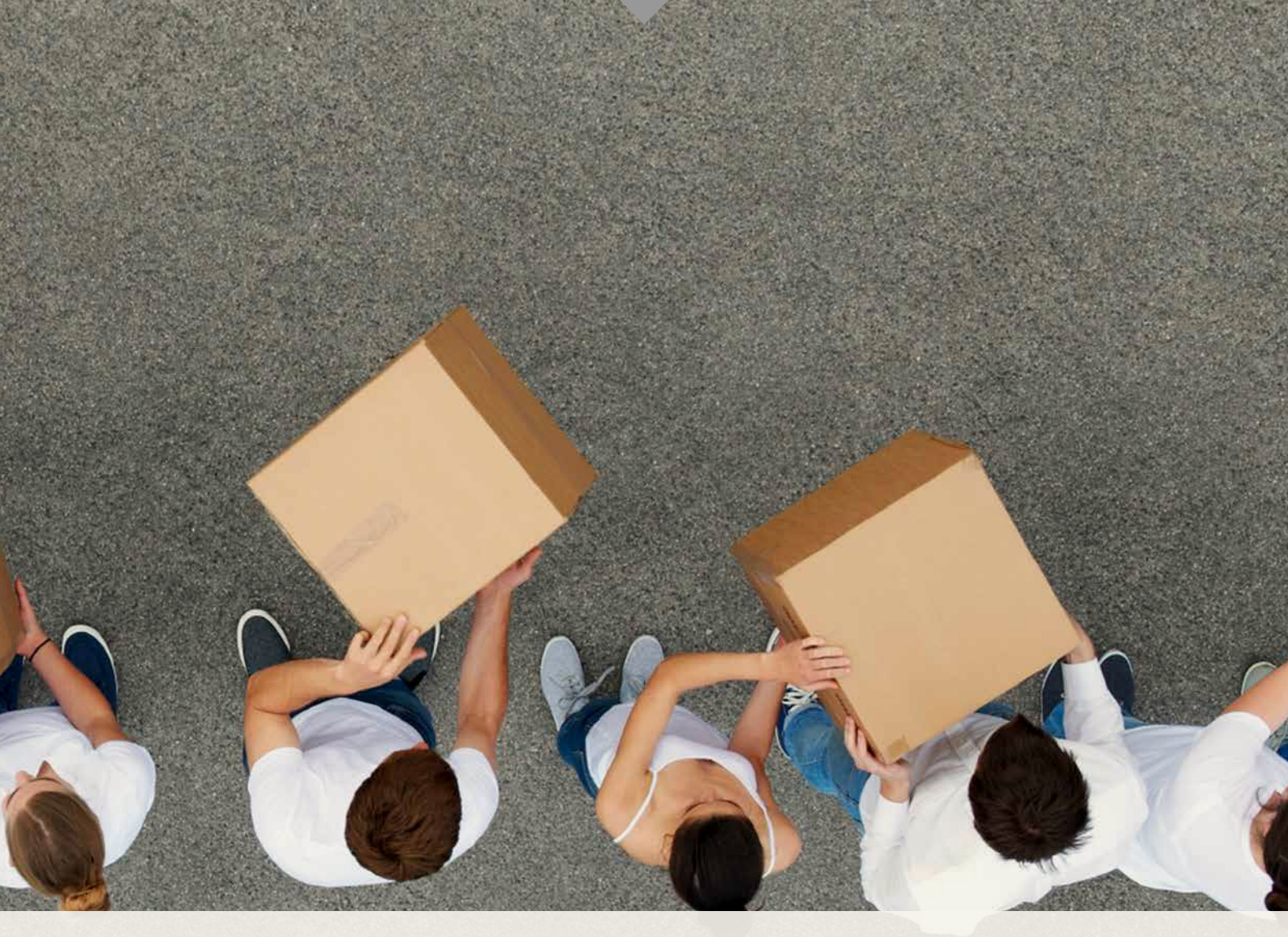




WRIGLEYS
— SOLICITORS —

COMMON MODELS IN EMPLOYEE OWNERSHIP

This information sheet is an introduction to some of the legal structures used in employee ownership. The structures are designed to achieve various benefits for both the business and the employee shareholders themselves such as:

- Providing a long-term employee ownership model
- Retaining shares within the company after an employee leaves or retires
- Rewarding employees through tax efficient bonuses
- Helping employees to grow their shareholding in the company and build their investment
- Encouraging long service through share ownership and tax incentives
- Reducing inheritance tax and capital gains tax paid by employees on their investments

As a leading firm with expertise in both private client tax and employee ownership, Wrigleys are ideally placed to provide the necessary inheritance tax and capital gains tax advice to either shareholders or businesses.

As awareness of the benefits of employee ownership increases and support from the Government grows, we hope that more incentives will be provided to help businesses and employee shareholders.

Employee Benefit Trusts (EBTs)

EBTs help long term stability for a business by holding shares on behalf of employees. EBTs are sometimes described as a 'warehouse for shares' as they:

- May secure shares for the benefit of all employees
- Hold shares that are returned by employees who leave or retire
- Keep shares in readiness for new employees to buy or existing employees to increase their shareholding (for example through a Share Incentive Plan)

In some cases the company's entire shareholding is held in the EBT, but in other cases it may be no more than 25%. Careful consideration should be given to the number of shares held by the EBT.

The choice of trustees is important as it is the trustees who will control the shares held in the EBT. Often there will be a single corporate trustee and the directors of the corporate trustee will include the employees themselves from different levels of the business and an independent trustee. Wrigleys can act as a corporate trustee through Wrigleys Trustees Limited and provide independent trustees.

Employee Ownership Trusts (EOT) - Indirect Ownership

An Employee Ownership Trust is an HMRC approved Employee Benefit Trust to facilitate the succession of a company into employee ownership.

If 51% or more of the shares of a company are sold to the EOT, the sellers pay no Capital Gains Tax. Once the EOT owns 51% of the company it can pay an Income Tax free bonus to employees up to a maximum of £3600 a year. Existing EBT can also obtain EOT status if they meet the 51% ownership threshold.

Share Incentive Plans (SIPs) - Direct Ownership

SIPs are an HMRC approved Employee Benefit Trust to provide a medium to long term incentive for employees. For example, a SIP may be used as a tax efficient bonus scheme to:

- Give free shares to employees
- Allow employees to buy more shares in the company out of gross earnings
- Match shares bought by employees with a grant of free shares

The terms and rules of the SIP are set out in a written trust deed which must be approved by HMRC to obtain tax reliefs for the company and for the employees.

A SIP can help a business encourage long service as the longer the shares are kept in the plan, the less tax will need to be paid when they are taken out.

Enterprise Management Incentive (EMI) Share Options

EMI share options are an additional way for growing businesses to attract and keep key employees.

EMIs offer employees and employers generous tax advantages where shares are purchased following the exercise of an option.

Prior HMRC approval is not required for the grant of EMI options. However the grant of an option must be reported to HMRC within a set period following the grant.



Contact Us

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About Wrigleys

Wrigleys Solicitors LLP is a leading law firm specialising in employee ownership, pensions trusts, family trusts, charities, social enterprise and employment law.

Solicitors at Wrigleys have been advising on employee ownership since 1987.

www.wrigleys.co.uk/EO