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Charities and employee ownership

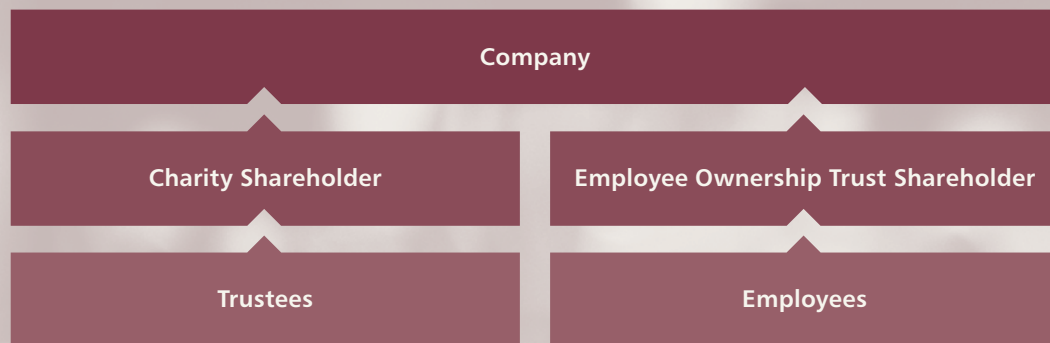
A short guide to charities and owners and “employee owned” charities

Setting up a charity on succession to employee ownership

Some generous owners may set up a charity to own some, or less frequently all, the shares of the company moving into employee ownership which may also provide a mechanism for their own charitable giving.

Advantages

- It may provide a stable long term shareholder alongside employee owners or an employee ownership trust.
- It may act as a disincentive to a sale of the employee owned company.
- It may be tax effective for the owner who gifts the shares to the charity.
- It may provide a vehicle for charitable giving by the retiring owner.



What to watch for

- Ensure there are appropriate objects for the charity.
- Ensure that the gift of shares to the charity does not create a charitable investment which the trustees should diversify.
- Ensure that there is sufficient independence of trustees from other shareholders/employees.
- Ensure there is agreement on the relationship between the charity and the employee owned company.

Employee “owned” charities

Some orchestras, leisure centre charities and social care charities have been established as employee “owned” or employee member charities.

Technically, a charity cannot be employee owned since the assets of a charity must be held for public benefit and cannot be distributed to its members. Employees may become members of a charity but this wouldn’t entitle them to a distribution of the charity’s assets either in a dividend or on a winding up.

What are the advantages?

- It may provide a stable long term owner.
- It may be tax effective for the business with relief from Council Tax (business rates) and tax on profits.
- It makes it clear the business is for the public benefit.
- It may increase the engagement of employees in the activities of the charity.

Stable long term owner

Tax effective

Employee engagement

What to watch out for

- Ensure that the charity’s objects are carefully drafted for the public benefit.
- Ensure that the board of trustees has independent trustees who are not employees.
- Ensure that employee trustees cannot make decisions on their own remuneration.

Objects?

Trustee independence?

Decisions on remuneration?

What’s the employee owned charity structure?

- Some are registered with the Charity Commission and established as companies limited by guarantee or could be charitable incorporated organisations (CIO).
- Some are established as community benefit societies and register with HM Revenue and Customs to obtain charitable tax status. They are currently not required to register with the Charity Commission and are exempt charities.

Charity Board of Trustees

Employee
representation

Independent Trustees

Management
representation

How Wrigleys can assist

Wrigleys has a leading national charity law practice and private client practice, and therefore can advise on:

- Succession to employee ownership with an Employee Ownership Trust;
- Establishing a charity as a shareholder of the employee owned company;
- Establishing an employee "owned" charity;
- Connecting you to other employee owned companies with charitable status or charity shareholders; and
- Review of existing structure and ongoing specialist charity law and trustee advice.

Contact us

Please contact us for further information about employee ownership models or if you would like a review of any pre-existing arrangements.



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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