



The Employee Ownership Trust 2015 Survey

Presented by



Employee Ownership Trusts

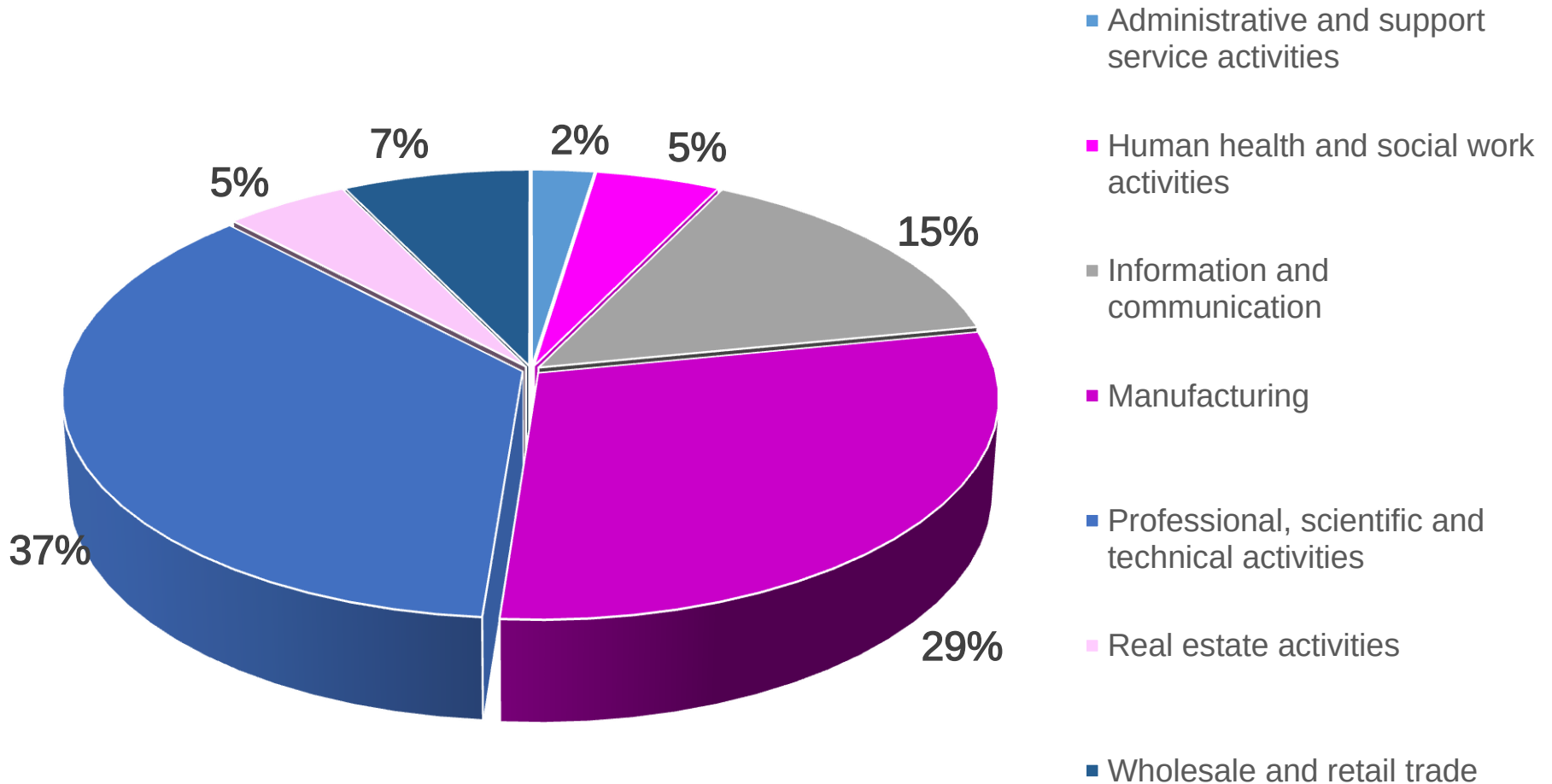
- Finance Act 2014
- Encourage transitions to majority employee trust ownership
- CGT relief for vendors (April 2014)
- Income tax free bonuses for employees (October 2014)

The who



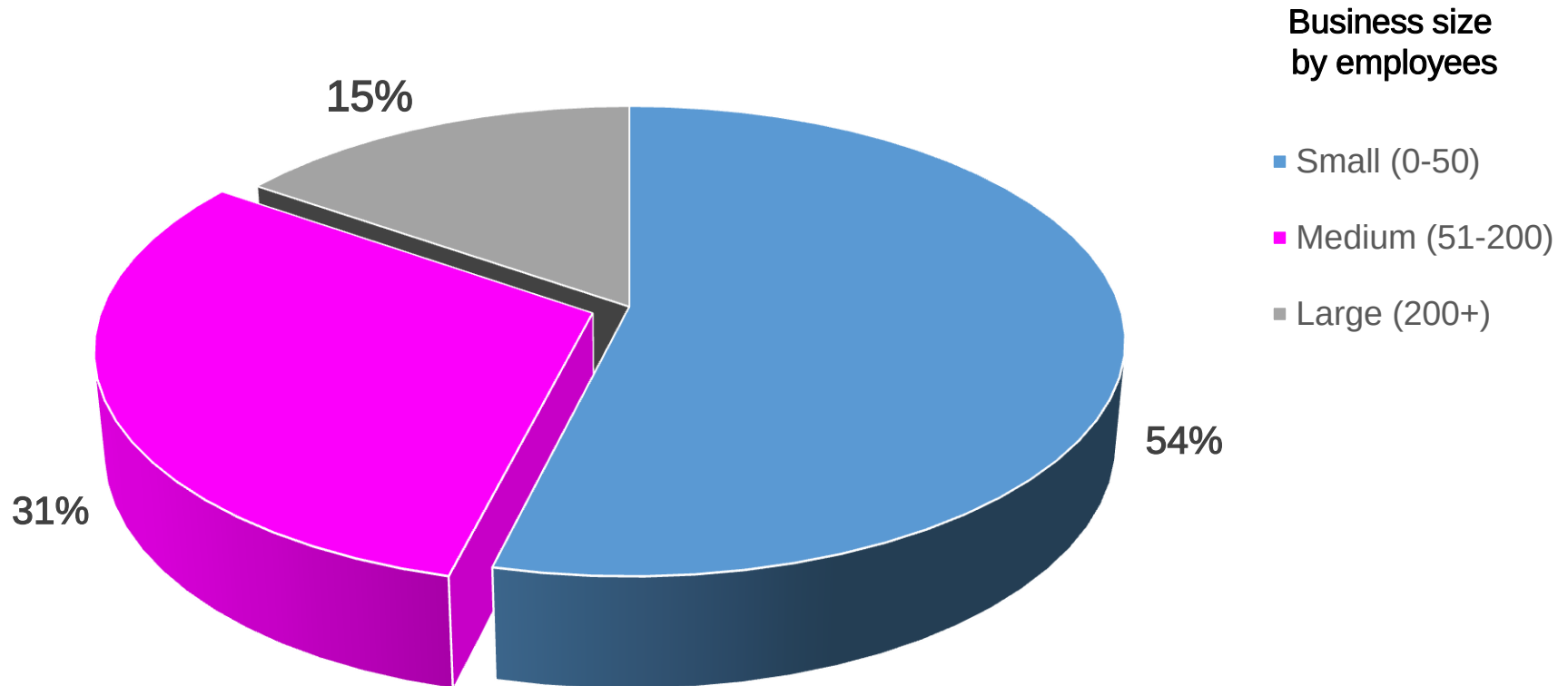
- The Employee Ownership Association and RM2 identified early adopters of the EOT and asked them to complete a questionnaire.
- This was supplemented with public domain information.
- Of those who took part **90%** were EOA members and **10%** were non-members.

The who



66% of our companies with an EOT operate within professional and manufacturing industries

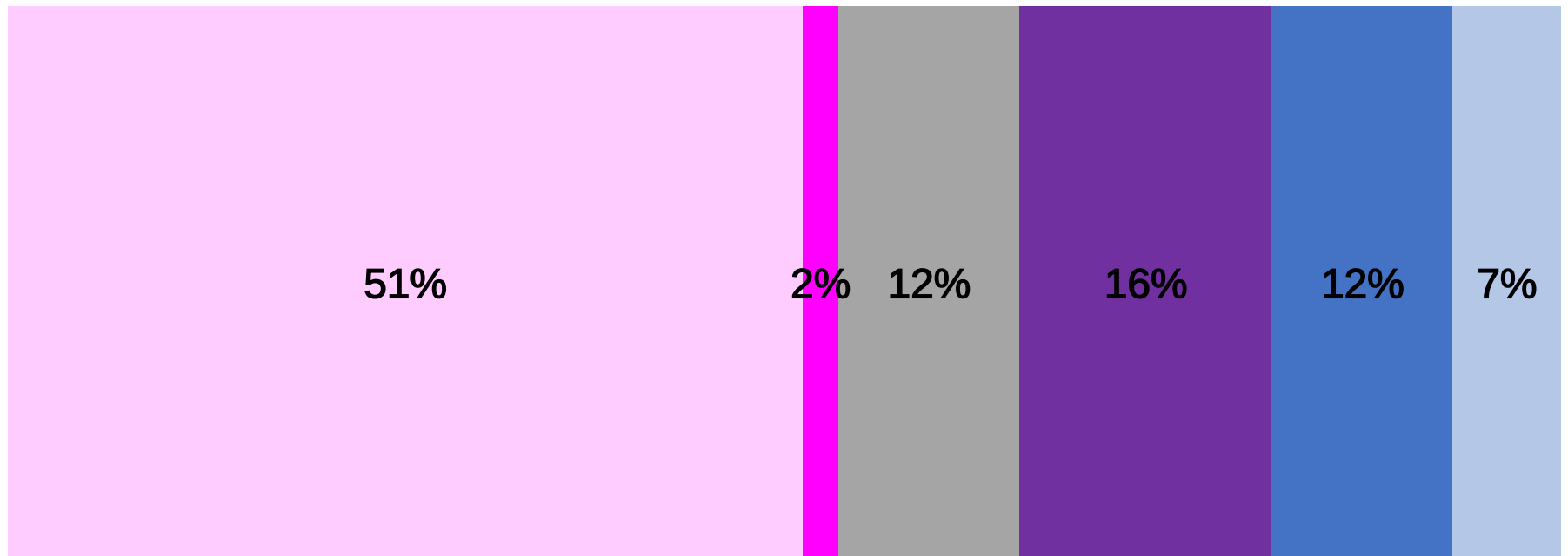
The who



Over half of all companies operate within **small** businesses.

The who

Respondent companies had turnover ranging between £150,000 and £143.8m

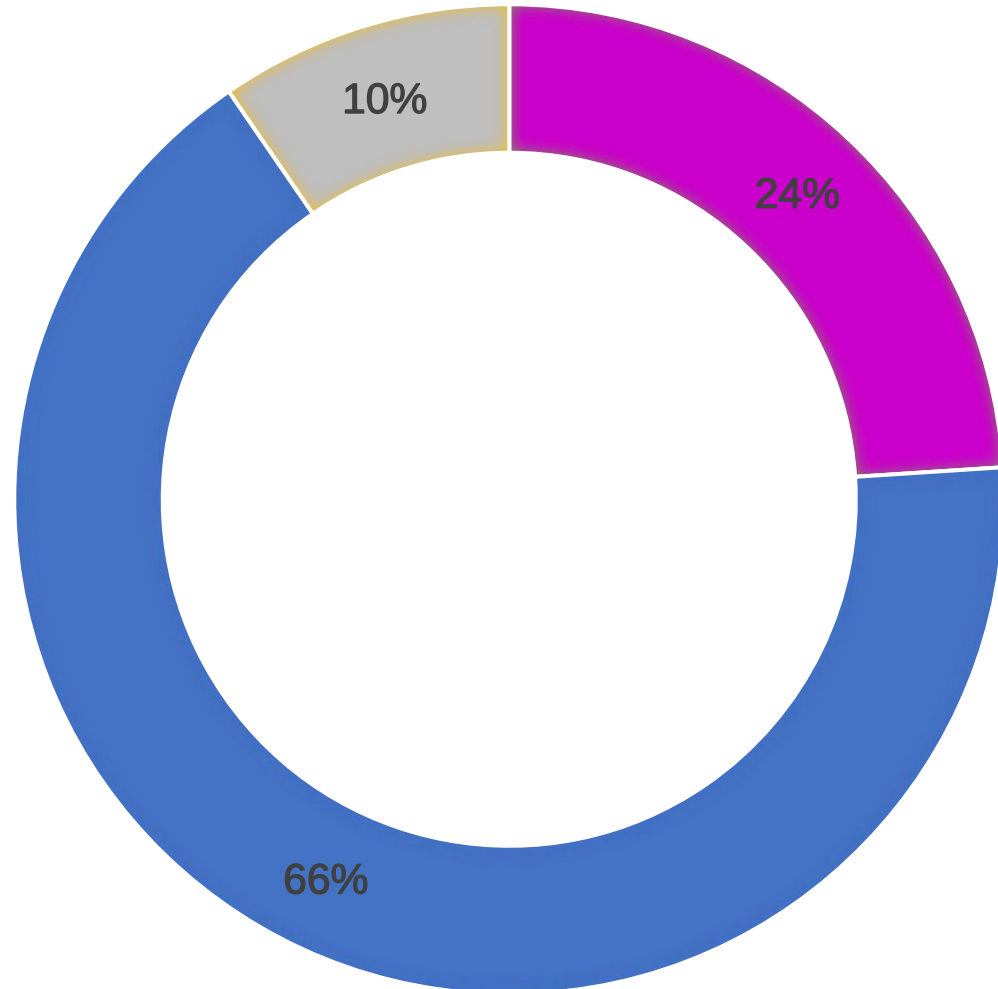


■ Unknown ■ £0-1m ■ £1-5m ■ £5-10m ■ £10-50m ■ £50m+

The who

■ 100% ■ Greater than 50% ■ Less than 50%

Of those not currently 100% EOT owned, over **50%** have definite plans to increase the EOT shareholding

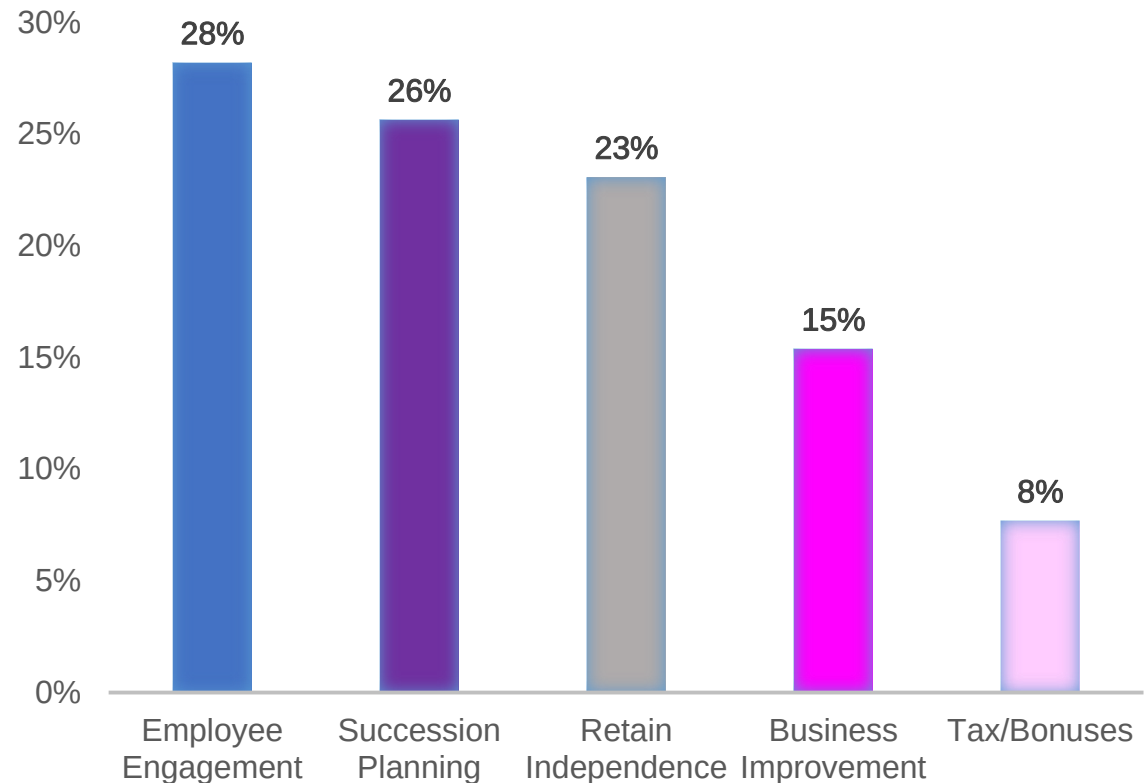


The who

28% said that improving **employee engagement** was a fundamental reason for introducing the EOT

Over 25% said that their EOT was implemented as part of their plans for **succession**

Almost 25% said that their EOT helped them to retain their **independence**



NB: Companies were able to provide multiple answers

The why

Improved performance and the ability to share rewards and benefits realised.
As well as clear succession planning and a controlled exit for the founders.

“

To ensure the long-term future of the company by safe-guarding our Independence and fully engaging our employees to ensure decision-making is solely focussed on the long-term benefit of customers and employees

”

To improve employee engagement, provide for profit share bonuses to employees and ensure the longevity of the company.

Future development, empowering the workforce and succession planning.

The why

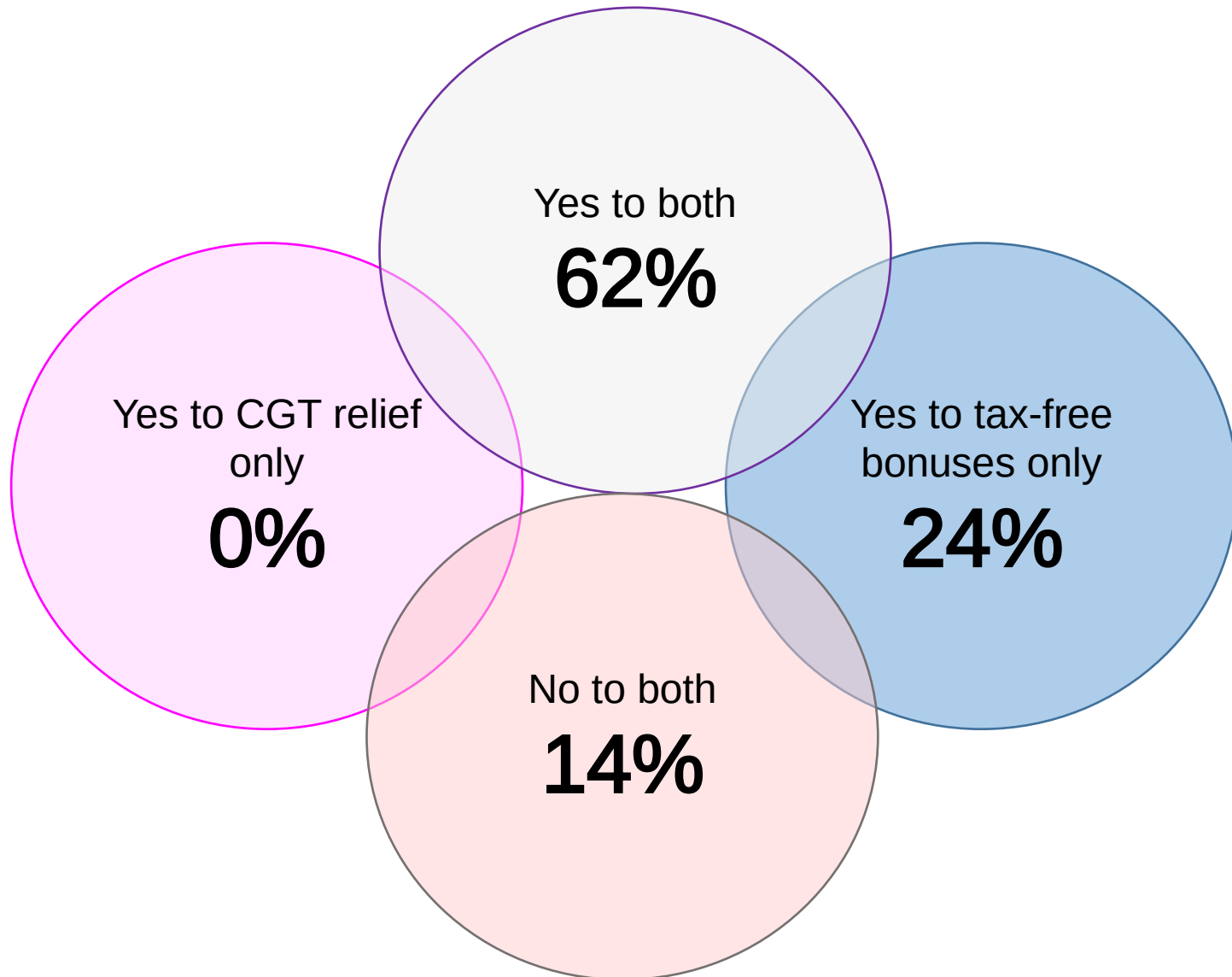
We asked: was the EOT acquisition structured with the aim of allowing one or more vendors to claim CGT relief?

Over **60%** stated that CGT relief was a factor in deciding on the EOT structure



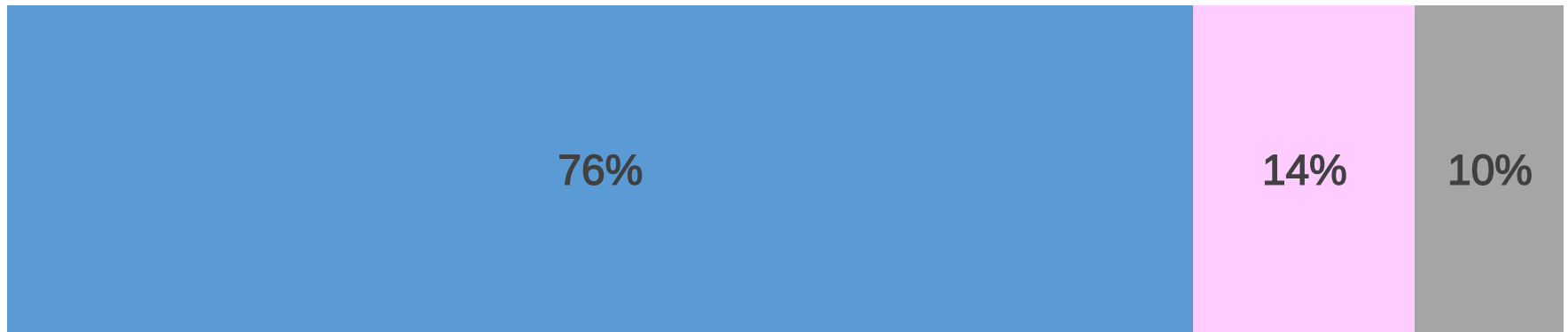
86% were taking advantage of the ability to grant their employees tax-free bonuses

The why



The why

So we asked, were companies committed to employee-ownership before the tax reliefs were announced? **76%** said YES



■ Yes ■ No ■ N/A

The when

■ #REF!

■ #REF!

■ #REF!

■ #REF!

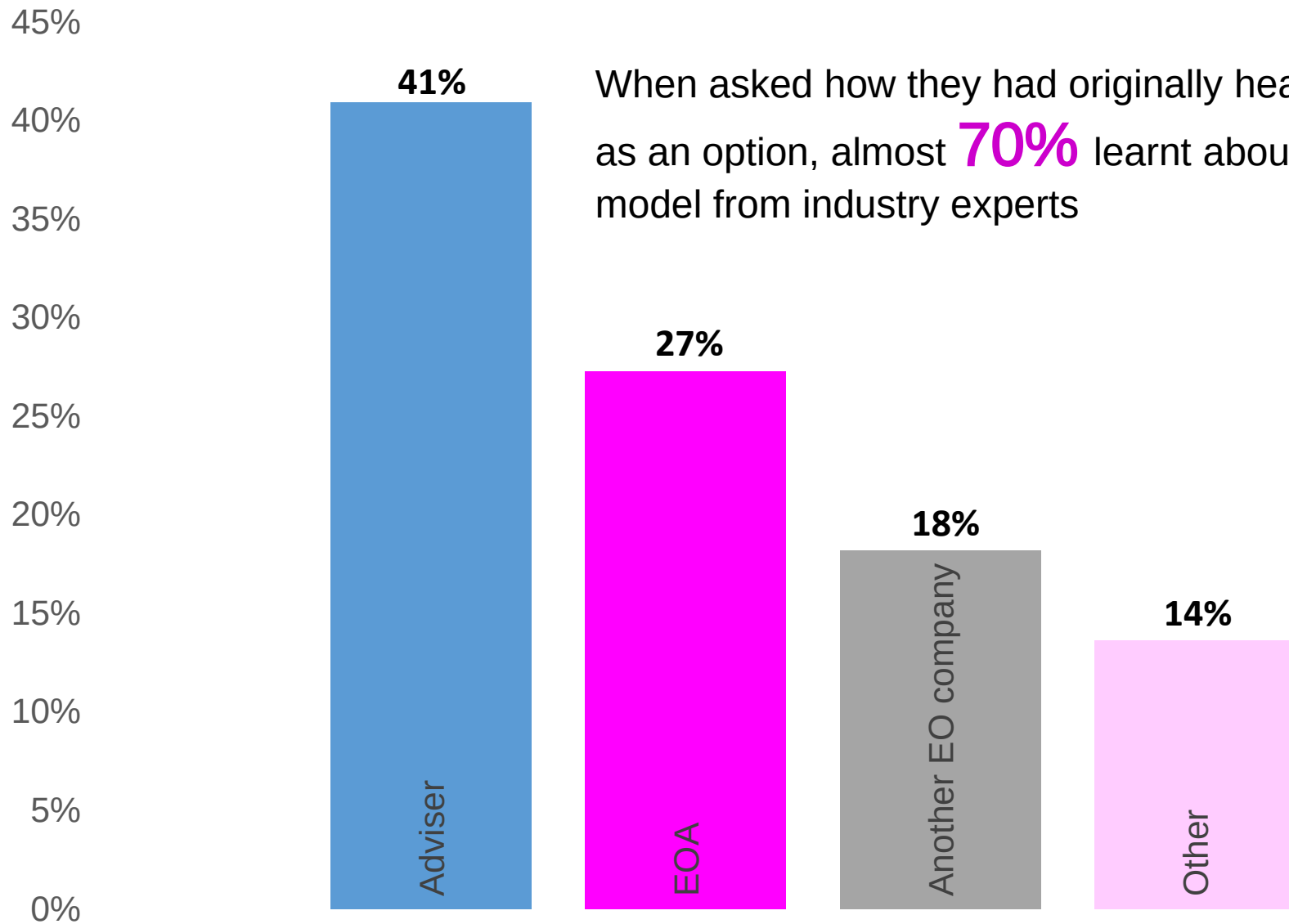


December 2013
EOT
introduced

April 2014
CGT relief
introduced

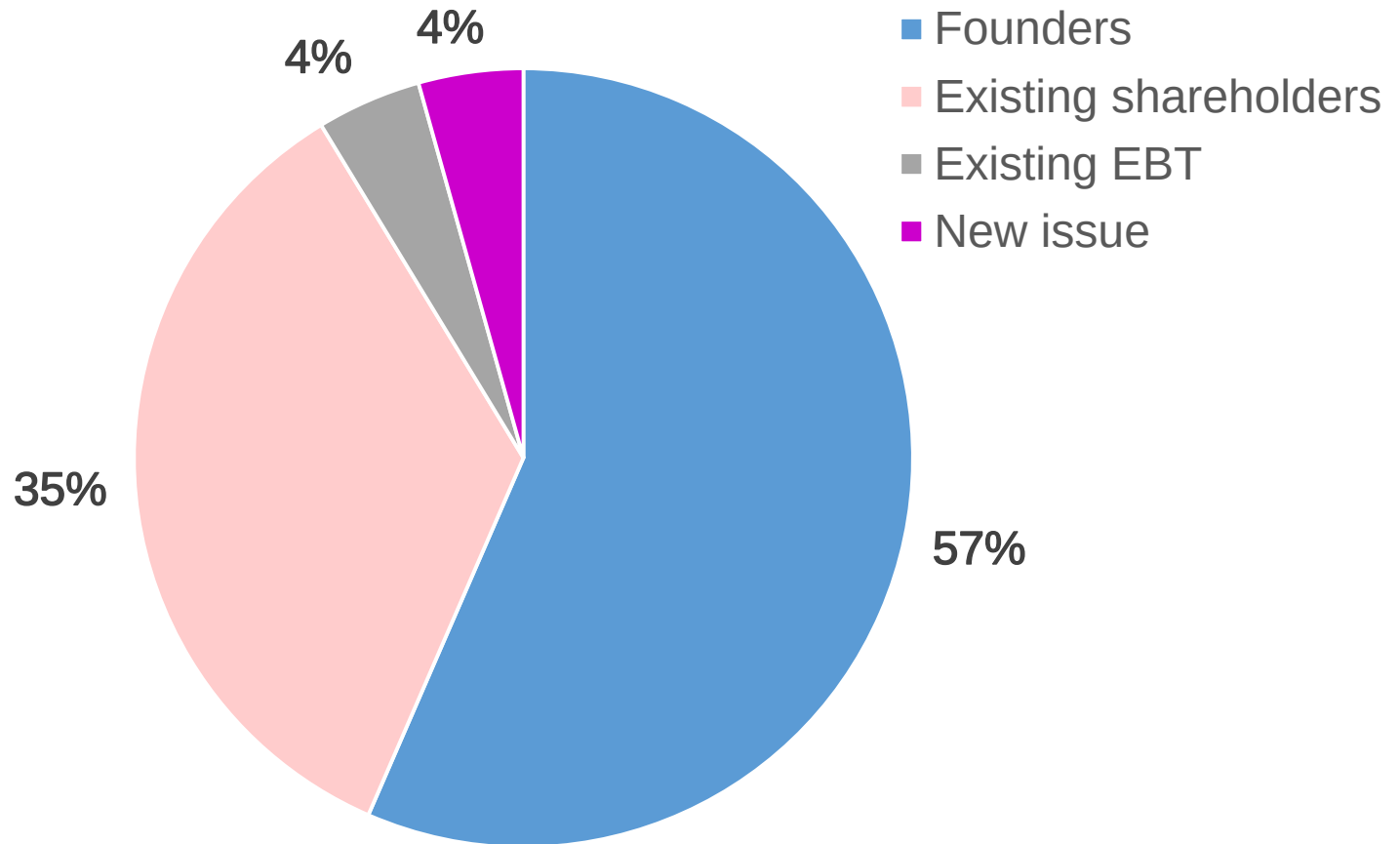
October 2014
Tax free
bonuses
available

The how



When asked how they had originally heard of EOTs as an option, almost **70%** learnt about the model from industry experts

The how

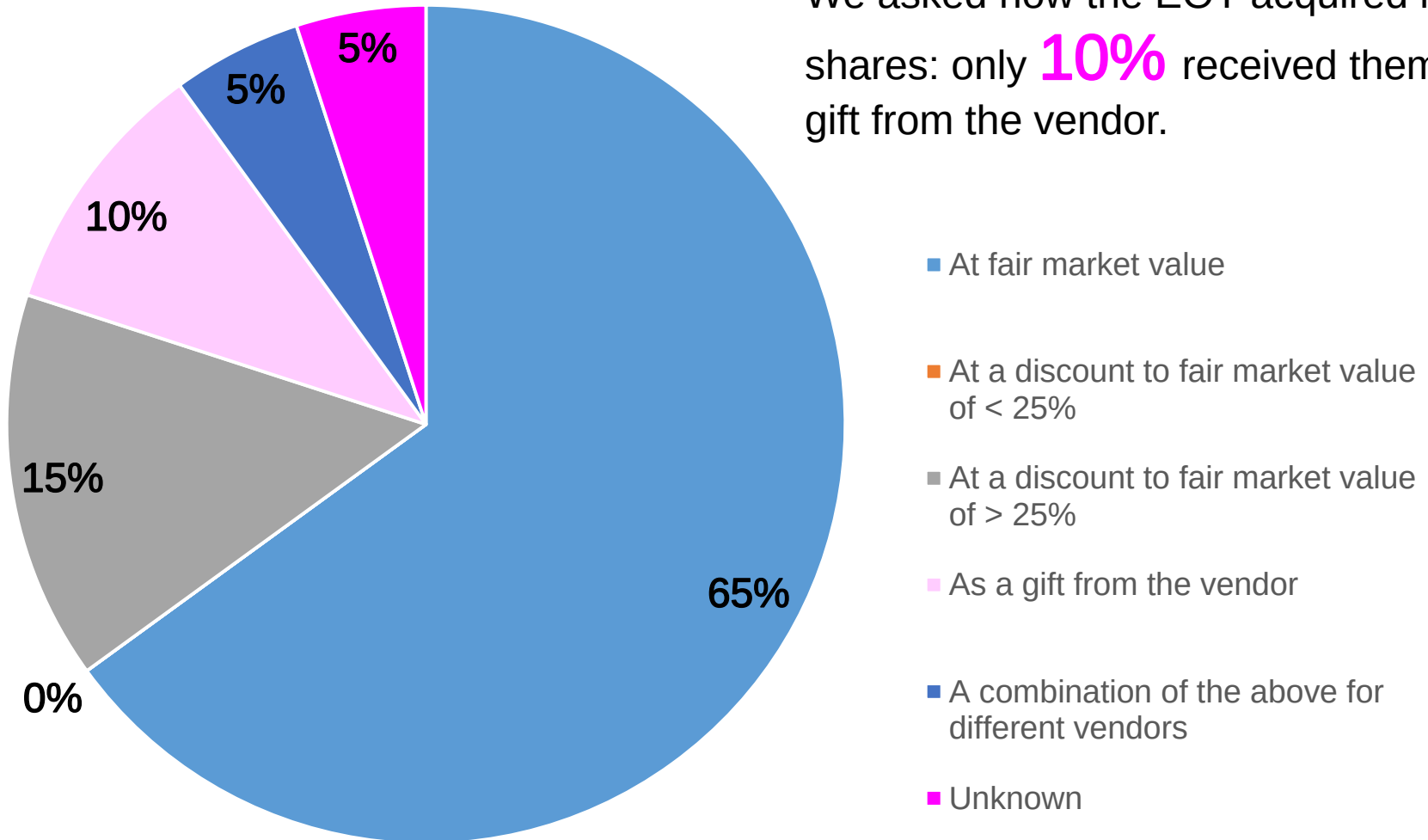


Over **90%** of EOT shares were acquired from the existing shareholders and founders of the company

NB: Companies were able to provide multiple answers

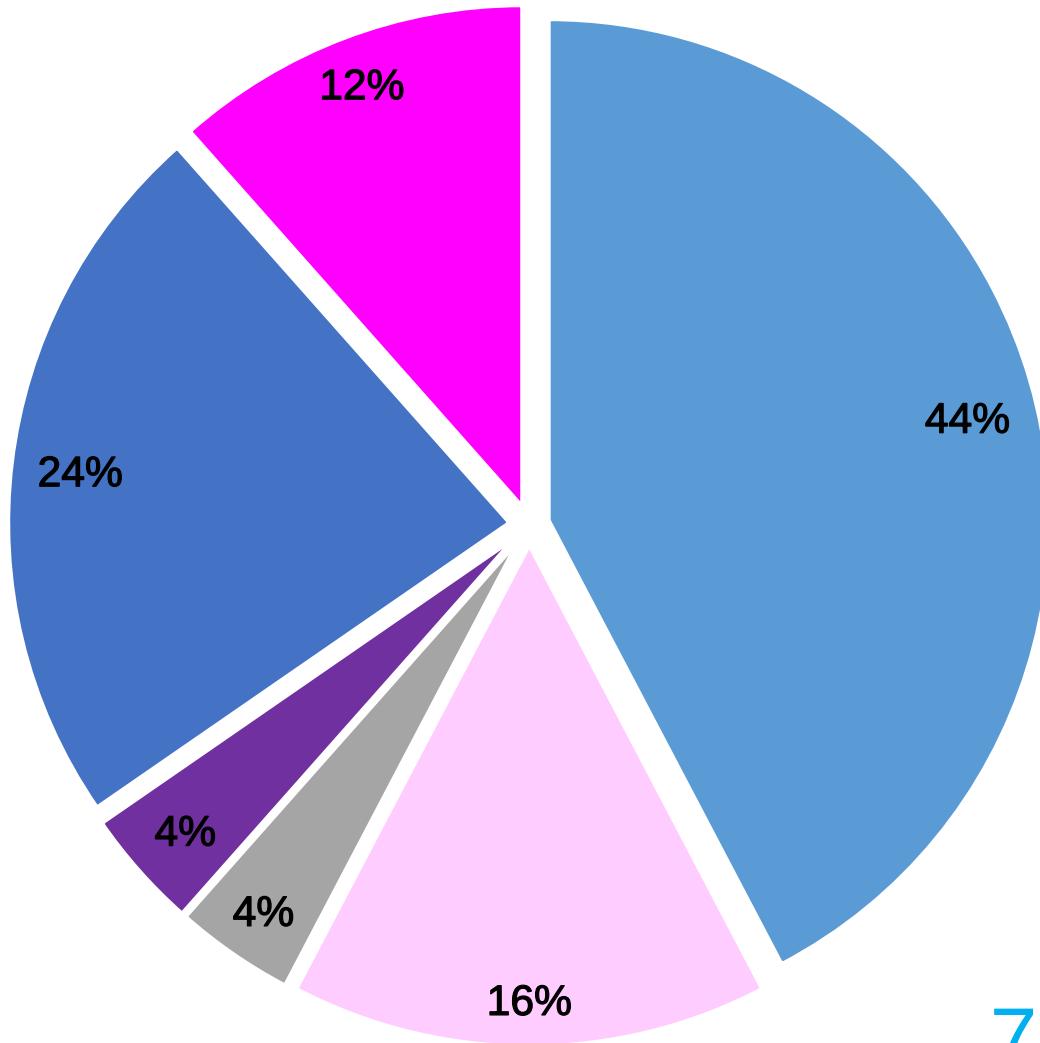
The how

We asked how the EOT acquired its shares: only **10%** received them as a gift from the vendor.



NB: Companies were able to provide multiple answers

The how

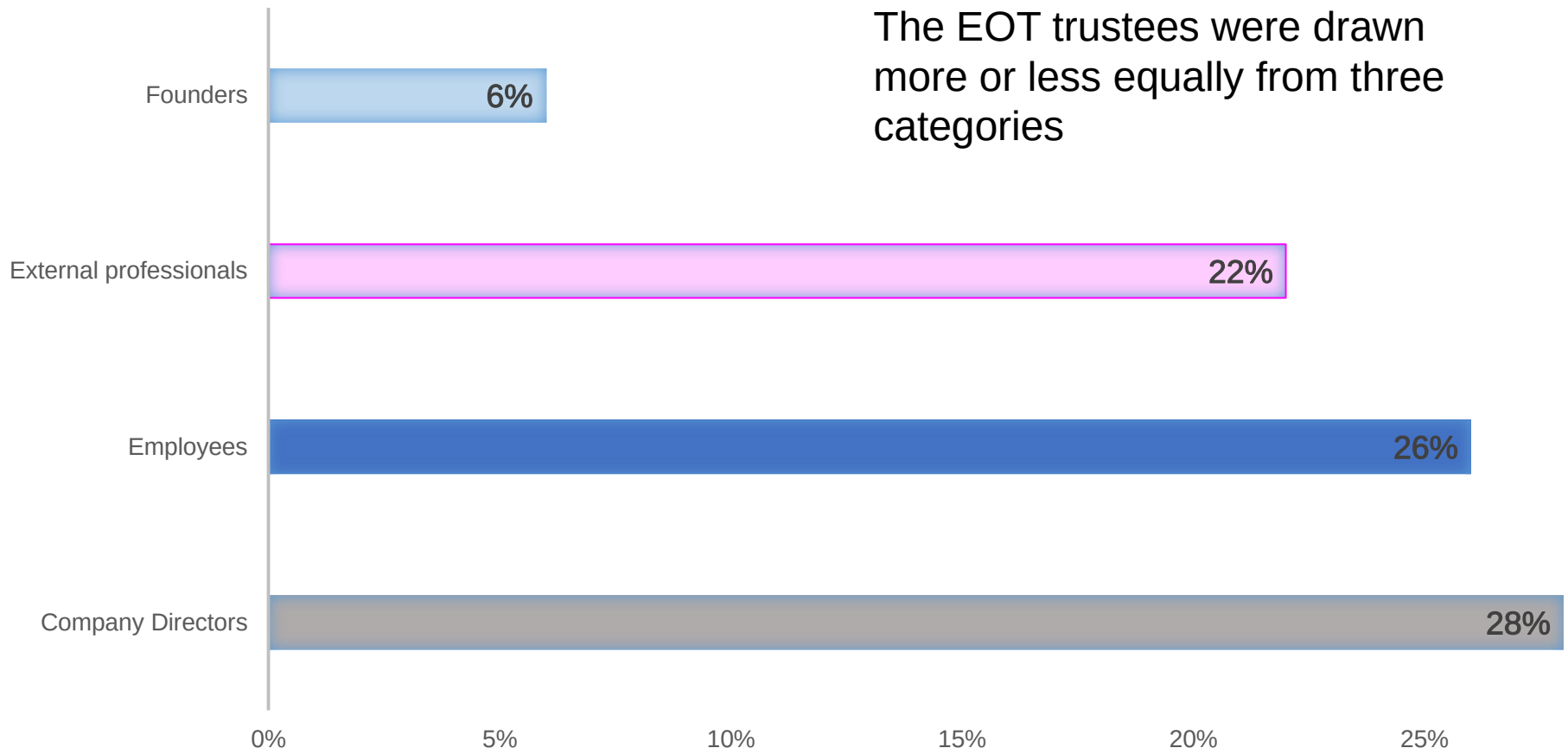


- By the vendor accepting deferred payment terms (effectively a vendor loan)
- By external bank loan to the EOT or the company
- By external finance from a source other than a bank (e.g. private equity)
- By loan from the company to the EOT
- By a gift from the company to the EOT
- Unknown

Of the **75%** which involved some payment to the vendor, almost half were provided by a vendor loan agreement

71% obtained a s701 tax clearance

The how



All but one company have corporate trustees for their EOT and only one company used an offshore trust option.

Would you recommend the EOT?

95% of those surveyed said it is a business model they would recommend to others and it is an important part of their future plans.

The other **5%** said it was too early to say.

Room for improvement?

- Loans to participators
- Tax exemptions for the EOT itself
- Some flexibility on “equal treatment” rule
- Standardised process and documentation
- Reduce threshold for tax reliefs to below 50%