



**KNOXHOUSE**  
TRUST · UK

# EMPLOYEE OWNERSHIP TRUSTS OVERVIEW



## INTRODUCTION

Employee Ownership Trusts (EOTs) were introduced by the UK Government to encourage private companies to engage employees in the ownership of the business.

The so called 'John Lewis' model enables employees to participate in the success of the business and offers both the employee and employer a number of key benefits.

An EOT may provide a tax-efficient way for shareholders to extract funds from their company, whilst allowing employees to benefit on equal terms without transferring ownership to individuals directly.

## WHY CONSIDER AN EOT?

- Enables shareholders to sell some of all of their shares to a qualifying trust for full market value, without any charge to Capital Gains Tax (CGT).
- Proceeds can be deferred and paid out to selling shareholders as and when the company makes profits.
- Higher employee engagement, satisfaction and retention.
- An option for a full or partial business exit where a third-party sale may not be desirable or possible.

## QUALIFYING CONDITIONS

A number of strict conditions must be met in order to qualify for the favourable tax treatment of EOTs, including:

- The company must be a trading company or the holding company of a trading company.
- All eligible employees must benefit from the EOT on the same terms, though certain limited distinctions can be made at the trustees discretion.
- The EOT must have a controlling interest in the company at the end of the tax year in which the shares are transferred.
- Not all shareholders are required to sell their shares to the EOT, and those who do are not required to sell their entire shareholding. However, the number of continuing shareholders with a 5% interest or greater (and who are directors/employees of the company) must not exceed 40% of the total number of employees in the company or the group.

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DELIVERING EXCELLENCE THROUGH A SHARED VISION



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## Why Work With Us

- Proven capabilities in establishing a wide range of corporate structures
- Outstanding client service combined with technical excellence
- Comprehensive service offering which is tailored to meet individual needs
- Collaborative ethos working with both clients & advisers
- Collective strength of wider group

## EMPLOYEE ADVANTAGES

EOTs can offer employees a specific number of benefits, which include:

- An annual bonus which can be paid to employees on equal terms. These bonuses will be free from income tax, but will be subject to National Insurance Contributions.
- As noted above, the EOT must generally benefit all employees on equal terms. However, the bonus amount paid can be adjusted for factors including overall remuneration, length of service, and hours worked.
- Neither the employees, nor the EOT or the company, need to have the cash immediately available to fund the acquisition of the shares. Proceeds can be deferred and paid to the selling shareholders over time, as and when the company makes profits.

## OUR CREDENTIALS

EOTs can be exceptionally attractive vehicles for business owners. It is vital that they are structured correctly from the outset and are appropriate for each client's specific needs. Implementing an EOT requires a multidisciplinary team of structuring specialists, lawyers and tax advisers.

Working with other companies within the wider Knox group, plus trusted partners through our extensive network of professional advisers, we are able to deliver a full end-to-end service for businesses and individuals considering establishing an Employee Benefit Trust.

### Our EOT Services Include:

- Communication with employees
- Organising tax and other advice for shareholders

- Establishing the trust, instructing experienced lawyers to ensure the terms achieve the key tax aims.
- Establishing a corporate trustee to manage the EOT
- Dealing with the transfer of shares, including completing or assisting with existing shareholders' tax returns if required
- Ongoing administration and management of the EOT
- Liaising with specialist funding brokers regarding funding of the EOT
- Post-transaction structuring for exiting shareholders and their families



## SPEAK TO OUR TEAM

In the right circumstances, an EOT can be an excellent option for those looking to exit their business in whole or part. Our collaborative approach to working with our colleagues in the wider group and trusted industry partners, ensures we are perfectly placed to guide clients through each stage in the effective setup and ongoing management of an EOT.

To find out more, or to arrange an initial consultation, please contact us to discuss your specific circumstances.

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