

Practical Aspects

1. Briefly on EOTs
2. Structuring and Funding
3. Difficulties and how to overcome

Reminder - EOTs

Shareholders sell a controlling interest to trustees of a qualifying employee ownership trust

- Disposal creates a no gain/loss situation (section 236H etc TCGA 1992)
 - No deemed market value for CGT
 - Shareholder makes a claim
- Company entitled to make limited tax free employee bonuses (not NIC free) (section 312A etc ITEPA 2003)
- Tax advantaged plans: shares can be eligible shares: para 27 sch 2, para 19 sch 3, para 17 sch 4, and independence requirement met: para 9 sch 5 ITEPA 2003

Structuring and Financing

Vendor Finance

- Initial payment plus remainder spread over 5-10 years
- Modelling – what can the company afford each year
- Percentage share sale
- Flexibility to advance/defer
- Interest on outstanding amounts
- Security – Loan notes
- Transferring assets – dividend, stamp duty

Structuring and Financing

Third Party Finance

- High Street banks – levels of authority and understanding of trusts/EOTs
- Specialist lenders – size of loan and interest rates
- Alternatives – debt factoring, security over real estate, debenture
- Professional trustee exposure – lending direct to trustee or company
- Company guarantees – balance sheet
- Overall cost and repayment periods
- Banking covenants
- Leave some income to distribute to employees

Difficulties and how to overcome

- Cash on balance sheet – trading company – cash paid out
- CGT relief vs IHT protection – BPR
- Rental properties – distribute – consideration - stamp duty
- Option exercise immediately before transaction – if transfer from EBT, stamp duty and registering transfer of shares - timing
- 5% participators excluded from EOT - look back 10 years
- Majority but not 100% sale – employment related securities value
- Remainder shareholding – value? Minority discounts, no special reliefs

THANK YOU