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How to successfully transition to Employee Ownership

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Contents:

- Introductions
- How to successfully transition to Employee Ownership:
  - The steps to take
  - The pitfalls to avoid
  - How to access finance
  - The tax considerations
  - Project managing the transition
- Q&A with Austen & Ewan

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Key Steps to Take

- Be clear on why you want to be employee owned
- Is the organisation or business moving to employee ownership sustainable?
- Is there a willing seller and is there a deal that works for them?
- Do you know how you will engage with all the key stakeholders in the organisation?
- Determine your new ownership structure
- Determine your new governance / accountability structure
- Appoint advisers who understand the options
- Implementation

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Pitfalls to Avoid

- Missing a Key Step
- Jumping the gun
- Managing expectations
- Managing third parties
- Not giving yourself enough time

Access to Finance

If there is a market price to be paid, someone will have to provide the finance

- Vendors
- High street banks – loan finance
- “Ethical” banks – loan finance
- Specialist finance providers – may include loan and equity
- Corporate finance intermediaries

Tax Considerations

- **Capital Gains Tax:**
  - No CGT if structured appropriately
  - Also think about CGT for employees if using direct shareholdings

- **Inheritance Tax**
  - Most shareholdings in private companies are exempt from IHT
  - But deferred consideration is usually liable to IHT
  - “Preference” shares can avoid this, but usually at the cost of less security

- **Income Tax**
  - No income tax on certain bonuses to employees (although NICs are payable)
  - First £5,000 of dividend income is exempt from income tax

Tax Considerations Continued

- **Corporation Tax:**
  - Few corporation tax issues with the transition itself, but some for post-transition
  - Employee tax free bonuses should be deductible for corporation tax purposes
  - Some direct shareholding structures (in particular, Share Incentive Plans) allow you to treat the cost of the shares as deductible for corporation tax purposes

- But…avoid the tax tail wagging the dog – tax laws will change

Accounting Considerations

- Understand the accounting treatment of the trust and any liabilities of the trust
- There can be discretion here – usually best to be clear on your accountants' likely position here
- Generally, if the trust is in effect controlled by the board of the company, its assets and liabilities may be consolidated with the company
- Generally, if the trust is not controlled by the board of the company, its assets and liabilities will not be consolidated – but there is likely to be a note to the accounts if the company guarantees the trust's liabilities

Project Management

- Make sure that someone does it!
- Set a timetable / key milestones
- As it is usually an internal transition, you can make amendments from time to time – but be clear on the impact of any changes on the project
- See sample timetable

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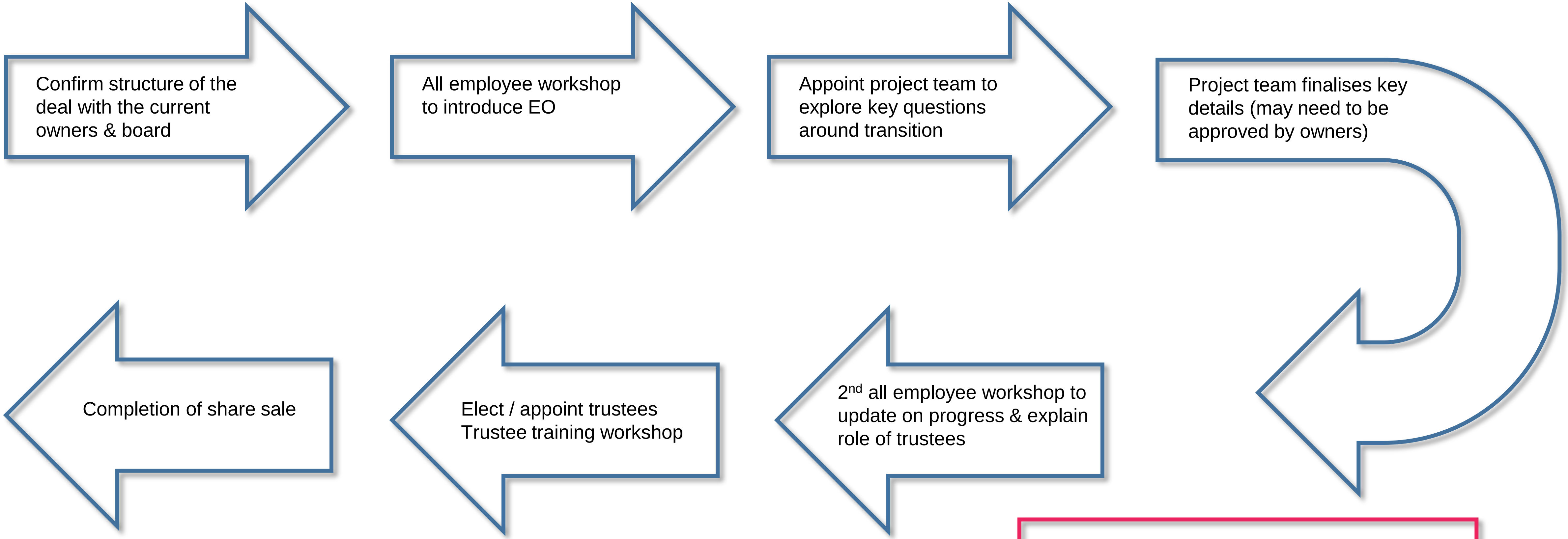
Sample timetable



But the timetable is very flexible – it will be for each organisation to decide what speed / progress is right for them

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Questions and Discussions

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Thank you. Please make your way through to the Kings Suite for exhibitors, product showcase and refreshments.

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