

# Financing employee ownership & the tax incentives available - introduction

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5 February 2015, Birmingham



# Introduction

There are different models of employee ownership. The main distinction is between shares held *indirectly* on behalf of employees through an employee trust and shares held *directly* by employees

You will have a good idea which is right for you

The screenshot shows the Gripple website with a navigation bar including 'Construction', 'Agriculture', 'Erosion Control', 'Distributors', 'Company', and 'Contact Us'. The main content area is titled 'The Legacy' and features four images of industrial buildings. Below the images, there is text describing the company's expansion into the industrial market in the late 1990s and its current focus on developing transit solutions like the Loadhog Ltd. and Smartstak frame. A sidebar on the right contains a search bar and a 'Need help or advice?' button.

Gripple

The screenshot shows the Quintessa website with a navigation bar including 'Home', 'About Us', 'News', 'Sectors', 'Services', 'Software', 'Case Studies', 'Clients', 'Careers', and 'Contact Us'. The main content area is titled 'Employee Ownership' and features a large image of a landscape. Below the image, there is a section titled 'Quintessa is Proud to be an Employee-owned Company' with a sub-section 'Newsletters' and a 'Sign-up' button. A sidebar on the right contains a search bar and a 'Need help or advice?' button.

Quintessa

The screenshot shows the 'the tentacle' blog website with a navigation bar including 'history', 'news', 'treatments', 'careers', 'videos', 'contacts', and 'locations'. The main content area is titled 'the tentacle' and features a large image of a starfish. Below the image, there is a section titled 'more about employee ownership (eo)' with a sub-section 'the 10 blog' and a 'Sign-up' button.

Ten Insurance

# Traditional employee share ownership

## Tax advantaged and unapproved share plans

### Tax advantaged share plans:

- the **Company Share Option Plan**,
- the “all employee” **Share Incentive Plan (or SIP)** ; and
- the “all employee” **Save As You Earn** share option plan
- **Enterprise Management Incentives** share option arrangement, and
- **employee shareholder status**

### Unapproved share and share option plans

**Suggestion:** Only introduce direct employee ownership to the extent a company can afford to buy shares from leavers

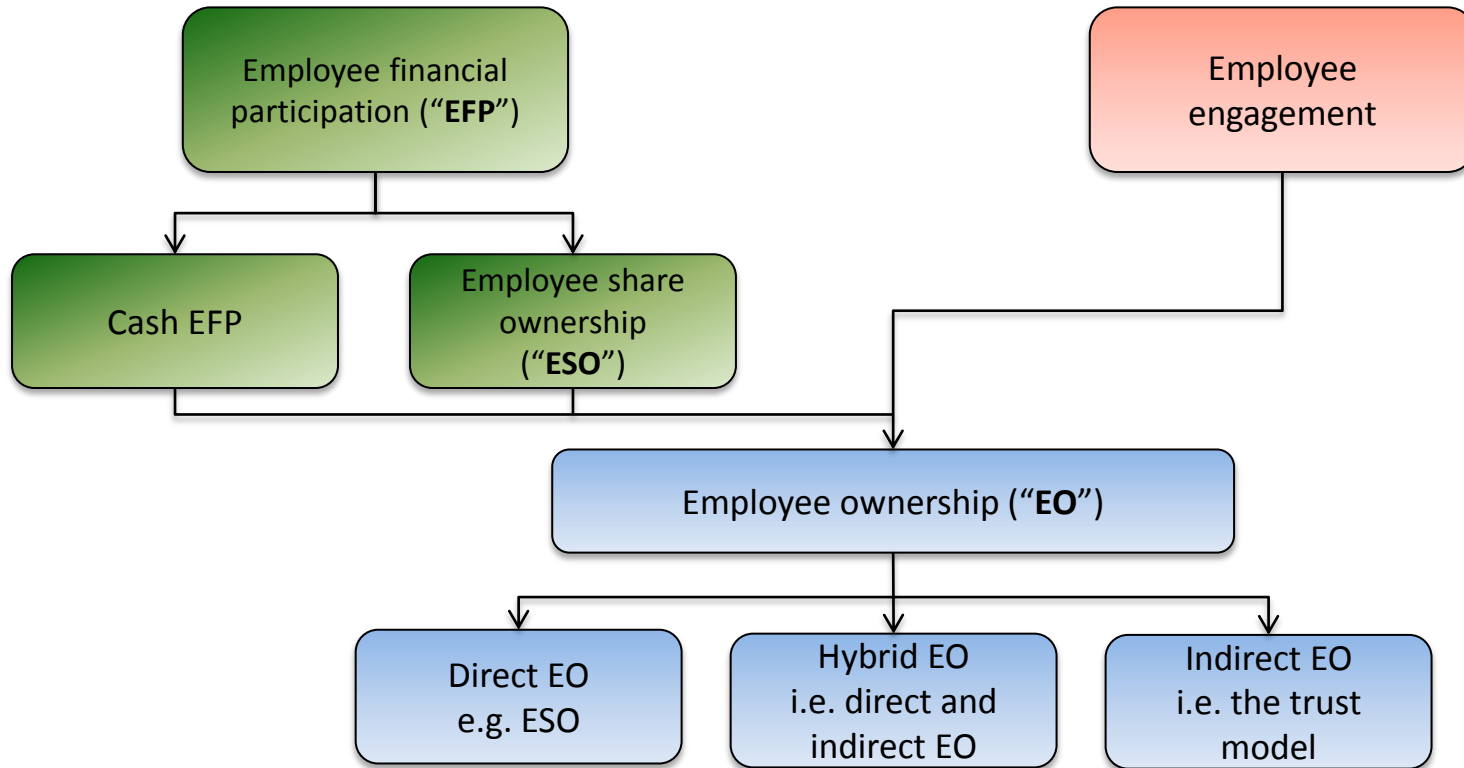
**Suggestion:** Use the Nuttall Review share buy back changes to run your internal share market

# What is employee ownership?

Key points are that:

- *all employees* should have a significant stake in the employing company or group, not just senior executives
- employee ownership is *not just about financial participation*
- it is *not just about delivering tax effective pay* even if that is to all staff
- employee ownership is about enhancing life as an employee:  
*“the employees' stake must underpin organisational structures that promote employee engagement in the company”*

# Employee ownership



# Indirect employee ownership

**Suggestion:** Sell a controlling interest to an employee ownership trust

Once shares are in an employee trust, keep them there, to avoid the complexities of running an internal share market

**Suggestion:** Provide income tax free bonus payments rather than SIP free share awards

A trustee can borrow or receive gifts from the underlying company, or the trust or underlying company can borrow from a bank

**Suggestion:** You have more control with an employee buy out than with a trade sale

As a result of the findings of the Nuttall Review the Government has introduced a new capital gains tax exemption

**Suggestion:** Hold shares permanently in an employee trust

This new tax exemption offers an alternative form of EFP

**Suggestion:** An employee trust opens up a variety of financing options

The trustee may accept fewer warranties and be flexible on timing

# Any questions?

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<http://taxdeductionsblog.fieldfisher.com>

Recent employee ownership articles:

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Posted on January 16th, 2015 by Graeme Nuttall OBE

In 2014 UK professional Journals published more articles on employee ownership ("EO") than in any previous year. This is tremendous step forward in raising awareness of EO. A key idea in the Nuttall Review was that regulatory change would encourage more publicity for EO and this has happened. In 2013, changes to the Companies Act rules on share buy-backs and treasury shares prompted articles in Journals such as *Company Secretary's Review*. The introduction of the new tax exemptions for employee-ownership trusts ("EOs") in the Finance Act 2014 has prompted most of this year's articles. Raising awareness of EO was one of the Government's reasons for introducing these new tax exemptions. As HM Treasury explained in July 2013: "Following the findings of the Nuttall Review and in order to support this sector, the Government has decided to introduce tax reliefs to encourage, promote and support indirect EO structures" and more explicitly "these tax reliefs will promote awareness of the sector and increase the attractiveness of indirect EO structures for businesses which might be considering converting".

The following is a selection of articles on EO from 2014:

**Employee Ownership: One Year On** (Company Secretary's Review, 15 January 2014) - "I have every expectation that when we look back at 2013 we will recognise it as having laid the foundations for a thriving and growing employee ownership sector in the UK. (Jo Swinson, Minister for Employment Relations and Consumer Affairs), Graeme Nuttall and Jennifer Martin from Fieldfisher explain more...".

One minute with Graeme Nuttall, Partner, Field Fisher Waterhouse LLP (Tax Journal, 7