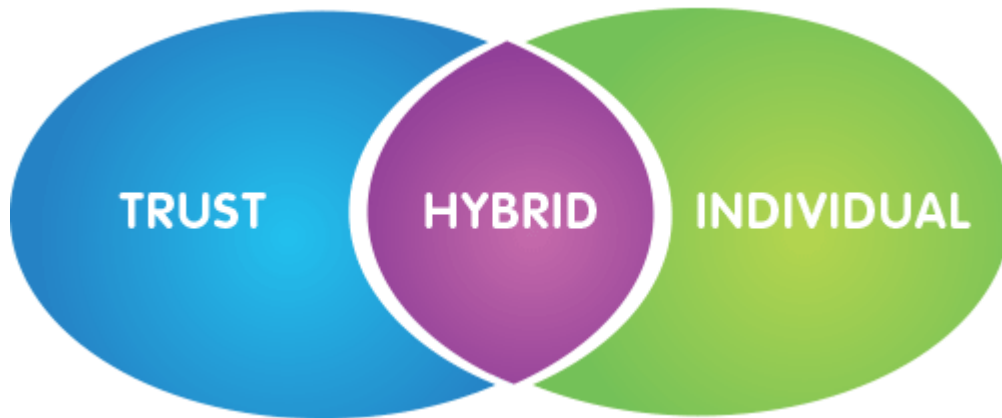


## Guide to becoming an Employee Owned Company

**Employee ownership is a form of company ownership in which the majority or a significant part of the company is owned by or on behalf of its employees**

Employee ownership is reported to be the fastest growing form of business ownership in the UK. An increasing number of business owners planning retirement are arranging for their employees to take over the ownership and entrepreneurs creating new businesses are seeing the advantages that employee ownership can bring for business growth. Whilst large businesses such as John Lewis are high profile examples of successful employee-owned companies, there is a large and growing number of smaller companies – in diverse sectors – that are also employee-owned.



Employee owned enterprises have enjoyed over 10% growth during the most recent recession, with productivity gains of 4.5% in 2014 alone. Added to this they are shown to benefit from greater resilience when times are hard, due in large part to the high levels of employee engagement.

### Why-employee ownership?

You might be considering employee ownership for one or more of the following reasons:

- Reward for past service
- Build a stronger company in the future
- Maintain independence
- Tax relief on selling to an employee ownership trust
- Income tax-free bonuses for employees
- Lack of alternatives?



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## What kind of employee ownership would work best in your company?

There are three main forms of employee ownership:

[Long term trust ownership](#)

[Individual share ownership](#)

[A combination of the trust and individual ownership \(hybrid\)](#)

Which of these will be the best solution will depend on your company and its employees. The following may help you start thinking about this:

| Individual share ownership  | Indirect (trust) ownership   | Hybrid ownership   |
|---|--|--|
| <p>Capital growth important</p> <p>Low staff turnover</p> <p>Smaller employee numbers</p> <p>Employees likely to consider personal share ownership more real than trust ownership</p> <p>Tax breaks for individual share ownership make it more attractive and affordable</p> | <p>Capital growth not an objective</p> <p>Higher staff turnover</p> <p>Larger employee numbers</p> <p>Long term investment/ownership is important</p> <p>Desire to prevent (or make difficult) a takeover</p> <p>Employees may have difficulty funding share acquisition</p> <p>Limited funds to buy back employees' shares</p> <p>If bonuses/performance based rewards are important, the company is happy for these to be cash-based rather than involving shares.</p> <p>Where the terms and level of the trust's ownership allow it, the ability to pay bonuses free of income tax may be an added attraction.</p> | <p>Trust ownership is preferred but you want some individual share ownership to provide:</p> <ul style="list-style-type: none"> <li>• a modest degree of capital growth and/or</li> <li>• a direct feeling of ownership</li> </ul> <p>You want to limit the total number of shares in circulation, as this limits any need for the company to help pay for share buybacks from employees who wish to sell their shares (or are required to because they leave)</p> |

## Tax incentives for employee ownership

There are two statutory tax incentives which are intended to encourage more companies to introduce employee ownership:

[CGT relief on sale to an employee ownership trust](#)

[Income tax free bonuses for employees of a company owned by an employee ownership trust](#)

## How to find out more

Please see our: [Employee Ownership Association Guide to Structuring Employee Ownership](#), [Employee ownership case study](#)