

**EMPLOYEE  
OWNERSHIP  
AND  
SUCCESSION  
PLANNING**

If you're a business owner, there'll come a time when you need to start thinking about succession. Who's going to take over running things when you no longer want to, and how are you going to realise the value you've built up in your business?

Time passes quickly when you're running your own business, and you can reach this stage sooner than you expect. If you also take into account that a good succession plan needs you to think about wider issues such as personal financial planning and what you'll do when your business's demands on your time have reduced, it's essential to plan ahead.



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## WHO CAN TAKE OVER THE OWNERSHIP?

For a rare few businesses considered to have major growth potential, a flotation or initial public offering (IPO) will be possible.

Flotations are for the privileged few, however. For many more businesses, a trade sale remains the most likely first port of call. Depending on your business and its value, there may be good quality buyers out there. If you want to explore this route, you may engage a specialist accountant or business sale specialist to market your company.



But a growing number of business founders find that this doesn't offer an attractive solution either.

Here are some of the things we often hear from owners who've considered a trade sale:

*"I'll have to stay on and most of my sale price will be based on future profits"*

*"I'm concerned that a buyer won't be able to retain the essence of what makes us tick"*

*"I couldn't have done this without our loyal employees, and I don't want to cast them adrift"*

*"It's the employees who know the business best – couldn't they be the next owners?"*

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## IS THERE AN ALTERNATIVE TO A TRADE SALE?

Yes, a growing number of business owners are choosing to sell to an **employee ownership trust**. Not only can this avoid many owners' concerns about a trade sale, it provides a foundation for future business growth by maximising employee motivation and engagement and ensures that they are rewarded for success.

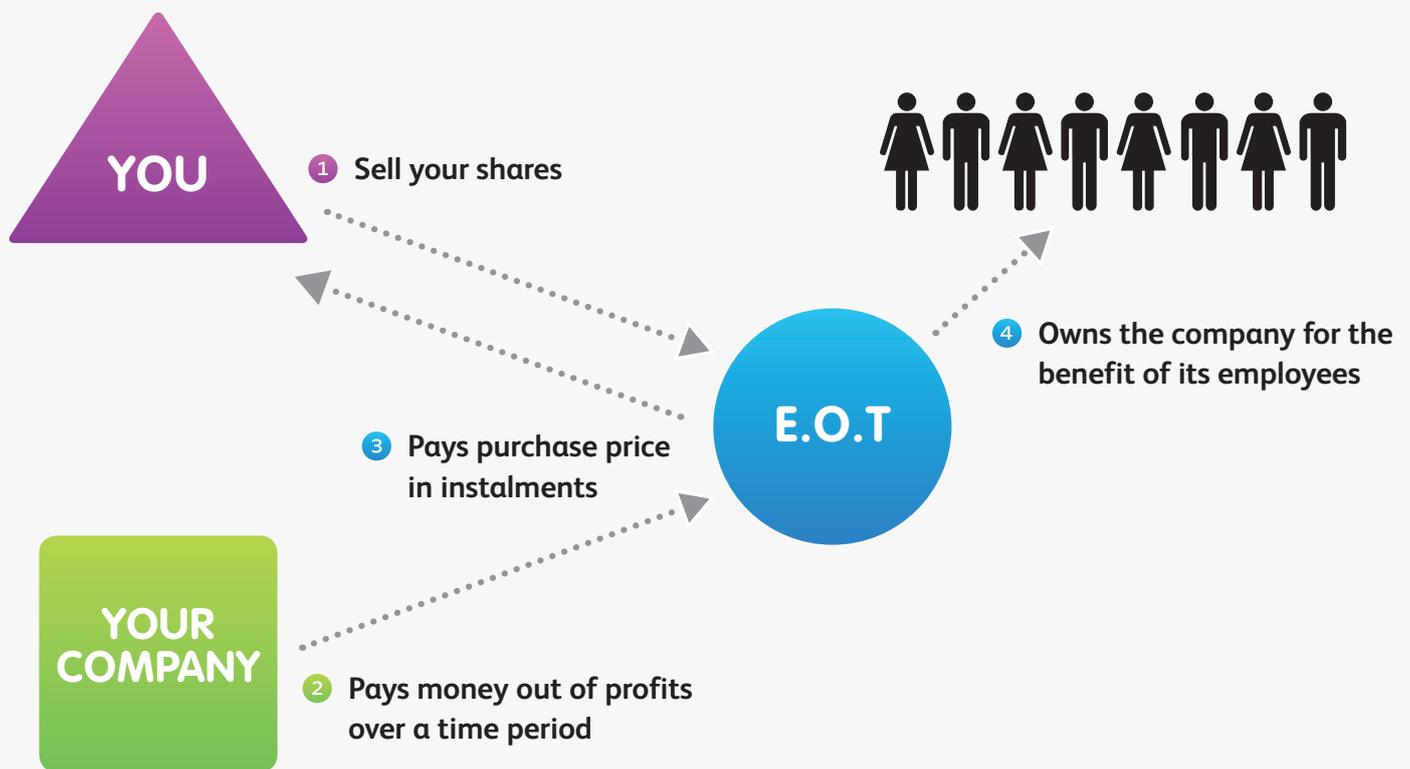


Tax reliefs introduced in 2014 mean that retiring owners can sell their business to an employee ownership trust free of capital gains tax, and employees can then be paid bonuses free of income tax.

# HOW DOES A SALE TO AN EMPLOYEE OWNERSHIP TRUST WORK?

In essence, the process is quite simple. The trust agrees to buy a controlling interest (more than 50 %) in a trading company, usually for a fixed price based on the company's market value at that time. It is

likely that you as the seller would receive the sale price over a specified period, funded out of the company's future profits:



## HOW DO YOUR EMPLOYEES BENEFIT?

Once the employee ownership trust has acquired the company, employees can benefit in the following ways:

- **They can acquire shares personally from the trust. Dividends may then be paid depending on company profit. If profits grow, the shares may grow in value, and/or**
- **They can receive a profit share directly from the company, up to £3,600 of which can be free of income tax each year.**

Any transfer of shares to employees from an employee ownership trust or payment of income tax free profit share must be made on the "same terms", which means either every employee is entitled to the same amount or it differs according to their salary, length of service or hours worked.

If required, though, additional reward arrangements can be put in place for members of the management team.

# WHAT ABOUT MANAGEMENT SUCCESSION?

You will need to ensure that you have a plan for management succession, although this doesn't need to happen at the same time as when you sell to an

employee ownership trust. For the right management team, employee ownership may make your company an attractive career choice.

## WHAT DO COMPANIES SAY WHO'VE DONE IT?



“Employee ownership has heightened our sense of each of us being responsible for looking after each other: “I have got your back and I know you have got mine”. Within a month of employee ownership, sales and productivity have significantly increased and we are confident will continue to do so”

NEIL C WRIGHT, MANAGING DIRECTOR OF TENS CARE



“We told the team about our new ownership structure it has changed the behaviour of team members; they act much more like owners now”

MARY ANTCLIFF, CO FOUNDER OF DOWDING PRECISION LTD



“Working with Robert Postlethwaite has made a complex transition easy, understandable and safe for all involved. He and his team provided a first rate service at all stages of the process and the handover took place to the timetable we had asked for”

RACHEL BYLES, DIRECTOR OF OPTIMUM BRASSES LTD



“The move to employee partnership was one of the best things we have done for our business and our employees and has enabled us to grow and engage our employees”

BARRY HAYES, DIRECTOR OF FLO GROUP



“I feel we have put in place a structure that will help guarantee the legacy of company”

AUSTIN KOPLEY, MD OF BARNARD AND WESTWOOD

**Postlethwaite**  
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