

The Complete Guide to Employee Buyouts

Part 2: Selecting the right ownership structure

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Choosing the right ownership structure: *some questions to ask*

What will work best for your employees, in your company?

Individual ownership:

- Dividends – and capital growth?
- Personal shareholder voting, board accountable to employees
- Will they be effective shareholders?
- Attitude to risk – will they be willing to invest?
- Is their contribution key to funding the buyout?

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Choosing the right ownership structure: *some questions to ask*

What will work best for your employees, in your company?

Trust ownership:

- The company is owned “for the benefit of who is working there at the time”
- Can the trust afford to acquire the shares?
- How do you reward employees for business success?

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Choosing the right ownership structure: some questions to ask

Trust ownership: How do you reward employees for business success?

- Bonus paid directly to employees by company:
 - *long/short term measures of success?*
 - *Banded for different categories of employee?*
- Dividends paid to trust, then to employees? Double tax charge – direct payment by Company normally better

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Creating individual share ownership

How employees might acquire shares

A key tax break – the Share Incentive Plan:

- *Statutory*
- *Enables employees to:*

Receive free shares, tax free; and/or

Purchase shares from pre-tax pay

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Benefits of the SIP

- Enables employees to contribute to the cost of the buyout
- Tax breaks mitigate risks where employees buy shares

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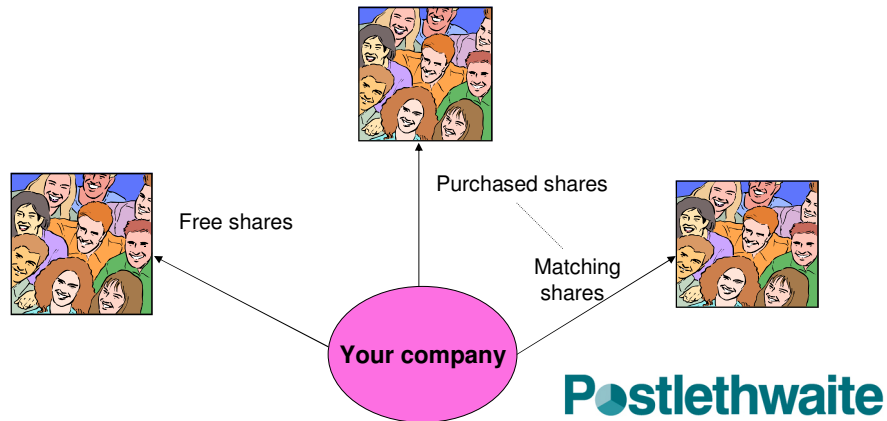
Share Incentive Plan

- Objective: *improve UK productivity*
- Method: *encourage companies to create widespread employee share ownership*
- The carrot: *tax incentives for employees, company and current shareholders*
- Current take up: *circa 5 million UK employees*
- HMRC research: *suggests c 50% of SIP companies believe it has helped improve productivity*

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The SIP

Employees can acquire shares in the company they work for, with tax relief:



It isn't only the employees who have tax relief

For the company:

- *cost of providing Free/Matching Shares is tax deductible*
- *Relief doesn't require immediate share distribution if SIP trust holds at least 10%*
- *It saves £12.80 NIC for every £100 invested by employees in purchased shares (Partnership Shares)*

For a current shareholder who sells to a SIP:

- *Indefinite deferral of CGT**

** If SIP acquires at least 10% of company and sale proceeds reinvested in other assets*

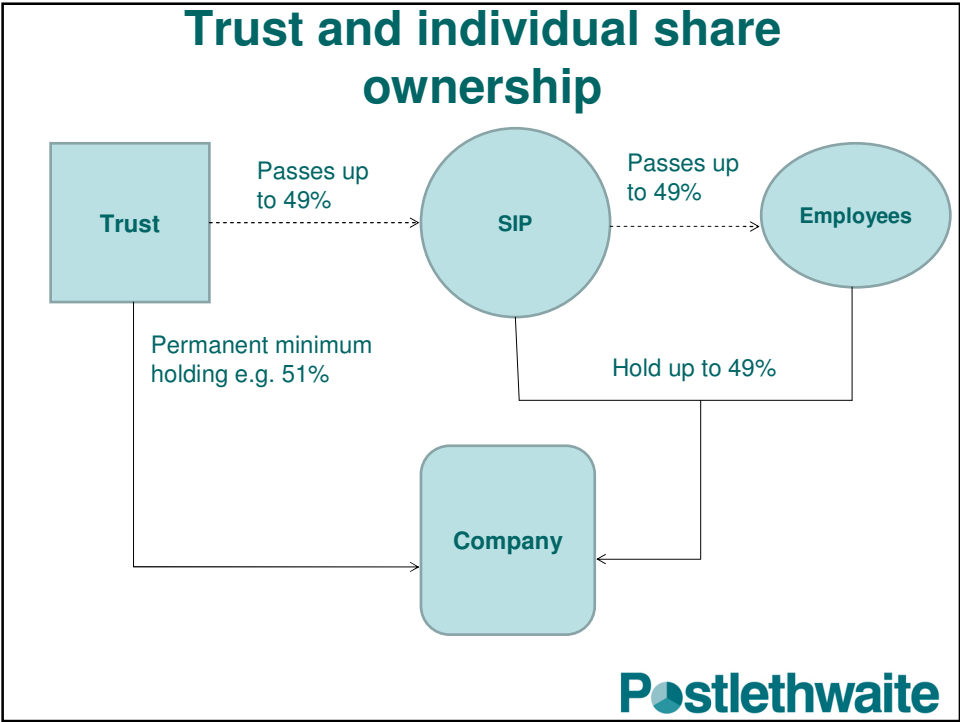
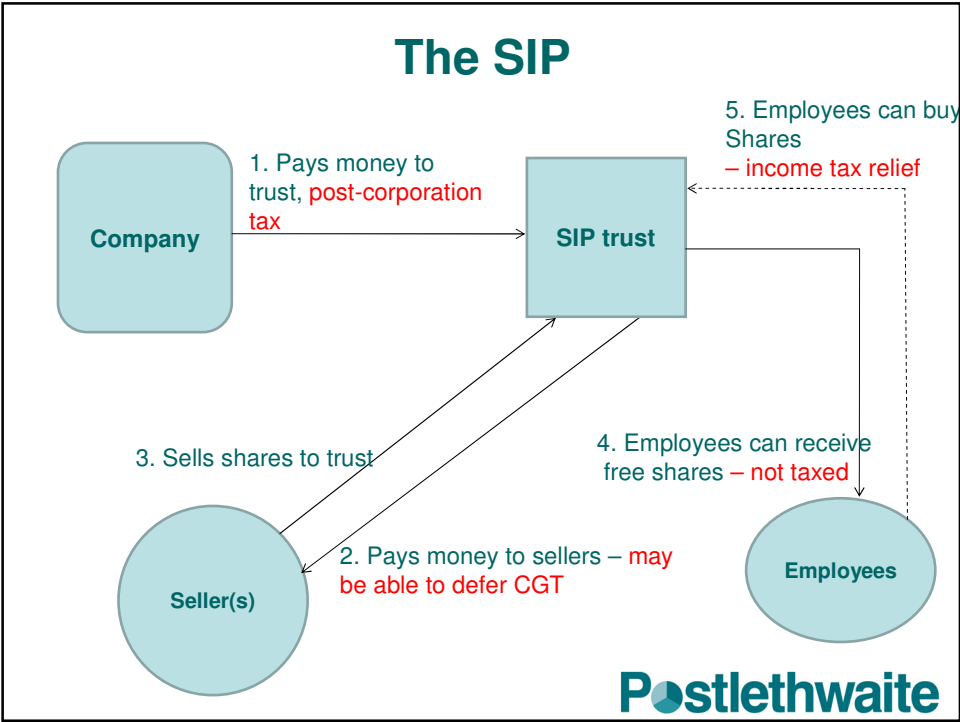
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Individual ownership: what is the reward for employees?

- **Capital growth**
 - *No CGT (if through SIP)*
 - *Sell back through internal share market*
- **Dividends**
 - *Cash – taxable or*
 - *Could be taken as further shares – tax free if through SIP*

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Some other ways in which employees can acquire shares

(for all or selected employees):

- Buy shares (not using SIP – *no tax reliefs but simpler*)
- Free shares (not using SIP – *taxed but simpler*)
- Grants of options to acquire shares later in time at price fixed today (*tax breaks may be available*)

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Thank you

Your questions and discussion

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