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Structure of an Employee Ownership Trust

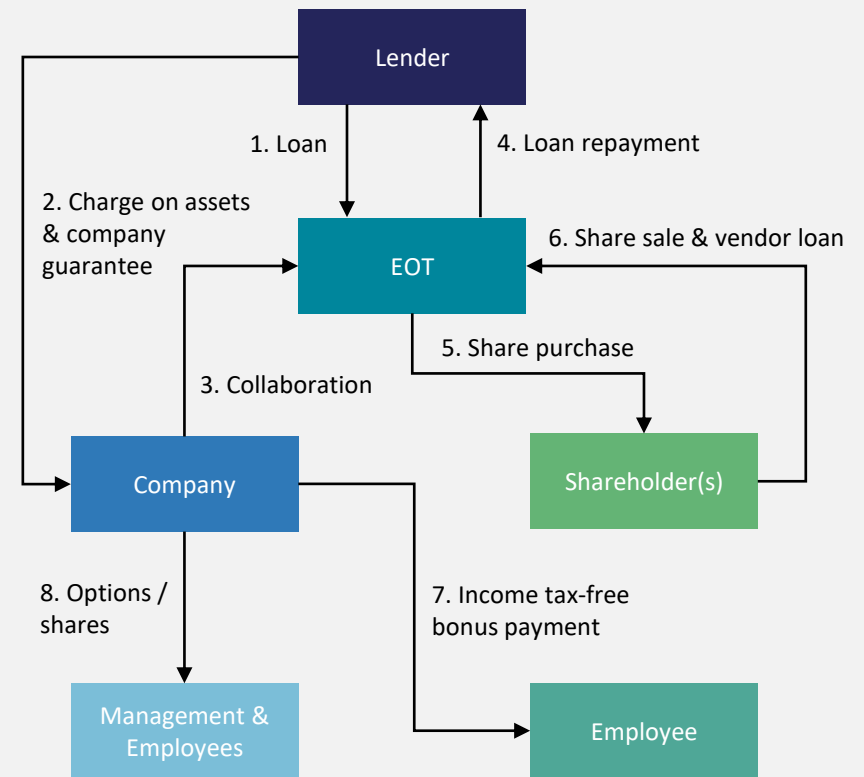
Structure of an Employee Ownership Trust

The Employee Ownership Trust (EOT) is an indirect ownership model; when an EOT purchases shares, they are held in trust for the benefit of the company's employees. Under the EOT structure, employees never obtain direct ownership of shares held by the trust. They can, however, potentially participate in tax-advantaged share schemes such as Enterprise Management Incentive (EMI) and Share Incentive Plan (SIP) schemes.

A typical EOT transaction structure is shown below. The overall structure will be the same, whether the transaction is financed using all vendor financing or a combination of third party and vendor financing.

1. The EOT borrows money from a third-party lender, with a company guarantee (senior or subordinated debt), and/or enters into vendor loan agreements
2. Third-party lender/vendor takes security (a charge) over company assets; third-party lender can take charge over the shares as well
3. Company makes contributions (gifts) to the EOT so it can service its debt obligations to third-parties or vendors
4. The third-party and/or vendor loans to the EOT are repaid over time through the contributions made by the company to the EOT from distributable reserves
5. Vendors sell up to 100% of shares to the EOT for cash (excess cash and/or third-party loan proceeds) and vendor loans, and pay no Capital Gains Tax on the proceeds from shares sold in the tax year the EOT acquires a controlling interest
6. The EOT pays for shares with excess company cash, proceeds from third-party financing, and vendor loans; EOT receives cash to service debt through gifts from the company
7. Employees are eligible to receive income tax-free bonus payment of up to £3,600 per employee per annum (not a requirement)
8. As an incentive to align interests, the company may issue shares or options to key managers, or staff as a whole (not a requirement).

A key takeaway from the transaction diagram is that the loan is shown as being made to the trust. This is the most common structure of an EOT, in our experience.



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