

Brabners
we make the difference



Employee ownership
a succession solution
for recruitment
businesses

Securing the future of your recruitment business

A key succession challenge for many owners of recruitment businesses is how to exit in a way which recognises the full market value of the business but allows the business to retain its strong brand identity and cultural integrity. By selling to an Employee Ownership Trust (EOT), owners can protect the integrity of their business, safeguard and incentivise staff who have helped build that success and ensure that a strong legacy is retained for the future.

In an uncertain tax climate, a key benefit to owners is that no capital gains tax will be payable on the sale proceeds. Employees of employee-owned businesses will also be able to benefit from an income tax exemption on staff bonuses.

A transition to employee ownership involves the sale of a majority shareholding to the trustee of an EOT which is established for the benefit of all the employees of the business.

An EOT therefore represents indirect rather than direct employee ownership. This means that employees don't hold shares in their own name - rather, the shares are held by a trustee for the benefit of all employees in the business.

As a majority shareholder, the trustee has a responsibility to ensure that the business is being run in a way which supports a culture of employee ownership, but the board of directors of the trading business retains responsibility for all day to day management. Employees aren't in a position to dictate change, but become incentivised stakeholders helping to strengthen the profitability and resilience of the business.

Delivering financial advantages to both the business owner and employees, a sale to an EOT is an increasingly favoured exit route in the recruitment sector, which can deliver a long term succession solution for your business.



The advantages of a sale to an Employee Ownership Trust

Business Owner	Employees	Business
A market-value exit	Become incentivised stakeholders	Creates a platform for sustainable growth
No capital gains tax to pay	Tax free future bonus payments	Protects the business legacy and ethos
Relaxed sale process	Recognised for driving success	Long term succession solution



How we can help?

We work with owners to help them with their succession plans, supporting them and their business in the successful transition to becoming employee-owned.

Securing an exit to an EOT requires expert legal guidance to structure the deal effectively and to secure the tax advantages for all stakeholders.

Our recruitment sector specialists know the challenges particular to the recruitment sector and our specialist EOT lawyers are experts in employee-ownership. Our team have supported recruitment companies, both large and small, who have sold to an EOT as a succession solution.

We guide you step by step through the process, providing hands-on practical support to help you to realise your ambitions.

Guiding you through the process

Value the business

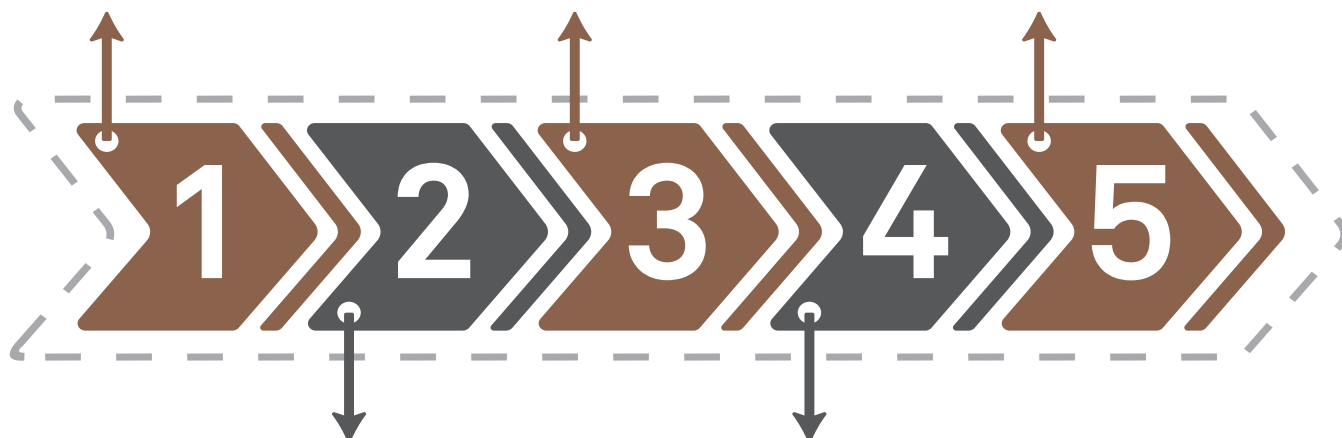
The business is independently valued and a market share price determined.

Establish the trust

All employees must be entitled to benefit from the trust, but entitlements can be flexed between employees, based on length of service, hours worked and salary.

Reap the rewards

If correctly structured, no capital gains tax is payable by the sellers, and employees can be paid income tax-free bonus payments.



Fund the deal

The purchase price is typically funded via a mixture of balance sheet cash, vendor loans and external funding.

Do the deal

The transaction is an internally managed process. This means the sale process is less stressful for sellers who will have more control over the timetable compared with other routes to exit.

FAQs

Is this a tax scheme which HMRC will be able to challenge?

Employee ownership is a model supported by government as a means to share corporate ownership more widely and help create better, more resilient businesses. It is not a scheme to avoid tax. The availability of CGT relief for selling shareholders is written into the legislation that was created in 2014 to better promote employee ownership for the benefit of the UK economy.

Do I have to sell all my shares to get the benefits of the tax break?

The trustee of the EOT only needs to hold a controlling interest. This means that selling shareholders can retain up to 49% (though any future disposal of the retained stake would not attract the 0% CGT rate).

Do I get 0% CGT even if most of the purchase price is deferred?

The tax relief will apply to the whole amount of the purchase price even if only a part of that is able to be paid on completion of the transaction. However, we would always advise that a tax clearance is submitted to HM Revenue & Customs to provide comfort as to the capital tax treatment of the deal structure.

How do I keep my high-performing staff properly incentivised within an EOT structure?

The trust only needs to hold a majority of the shares so that means equity can be made available to senior management (such as via the grant of management incentive share options). Performance related payroll bonuses can continue to be paid alongside (tax-free) EOT bonuses.

The Team



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Simon heads up our Recruitment sector and manages our relationships with TEAM, FCSA, Powerhive and APSCO.

An experienced employment lawyer, he advises on the breadth of employment law issues. He also specialises IR35 and status generally, as well as regulatory issues such as the Agency Workers Regulations, the Conduct Regulations, the GLAA and the issues arising from the Good Work Plan.



Stephen Hadlow
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Stephen specialises in advising businesses on their succession planning by becoming employee owned. He is actively involved with the Employee Ownership Association and has worked with multiple businesses which have transitioned to employee ownership.

Stephen also regularly presents to companies, shareholders and funders on the benefits of employee ownership as a succession strategy.

The Employee Ownership and Recruitment Sector Specialists

The team at Brabners has a strong track record working with and supporting recruitment businesses. Brabners also leads the field among law firms in the North West, working with business owners and management on their succession to employee-ownership.

We are professional members of the Employee Ownership Association and regularly run presentations on the benefits of employee ownership as an exit solution.

Our hands on and 'can do' approach, alongside our Employee Ownership expertise, sets us apart and is crucial to achieving a successful deal process.

