Plan your ethical exit

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EOT Essentials

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A fast growing **movement**

The employee ownership sector has grown by more than 600% since 2018, with over 2,400 Employee Ownership Trust (EOT) businesses and 350,000 employee owners. However, it still only accounts for 1.7-2.1% of overall economic activity*.

*Ownership at Work, "EO Knowledge Report", 2023

Why an EOT?

Selling to an Employee Ownership Trust is different from a trade sale or a management buy out. It keeps jobs local and rewards the people who helped build the business, without them having to risk their own money. It also safeguards the independence and "soul" of the company.

This handbook is for founders of small and medium sized businesses who are thinking about their exit.

About the **authors**

Ian Hiscock and Chris Maslin bring their combined insights on Employee Ownership Trusts to this guide. Their experience is from businesses at different ends of the employee ownership spectrum, but they share a common belief in what it takes for EOT companies to thrive.

Ian Hiscock

Ian cut his employee ownership teeth with the John Lewis Partnership where he spent 29 years.

He acted as a critical friend to senior board directors and leadership teams. He was twice elected as a Trustee of the John Lewis Partnership Trust Company, served for nearly seven years as President of the John Lewis Council and, for eighteen months, as acting co-President of the Partnership Council.

After leaving in 2019, Ian set up his own business Ian Hiscock Consulting Ltd (no expense spared on the marketing budget!).

He works as an Independent Trustee and EOT Board Chair for a wide range of employee owned businesses, including Nikwax and Paramo, Paradigm Norton Financial Planning, Kingsland Drinks and PHMG. He also provides consultancy support to employee owned (EO) businesses and has experience of setting up and chairing elected employee forums.

Outside the EO-world, Ian acts as a facilitator to leadership groups and for large events, and has worked for the last three years with academics at the University of Southampton.

Chris Maslin

Chris started his training as an accountant in 2004. After qualifying he spent a couple of years specialising in tax, then set out on his own in 2009, starting his own accountancy firm.

Over the decade that followed, it grew to become a respected brand in the freelancer and contractor accounting world, riding on the success of cloud-based bookkeeping package FreeAgent.

After considering his options, Chris sold a controlling stake in his company, Maslins, to an Employee Ownership Trust in 2021. Whilst there were a few niggles along the way, the process was successful, if a little archaic and disjointed.

Keen to help make things easier and more affordable for other small firms, Chris set up Go EO, offering a streamlined, fixed price, full-service EOT transition offering.

As well as remaining on the trustee board of Maslins, Chris is an independent trustee for a few small companies.

Read on to discover Ian and Chris's

10 must knows before starting your EOT journey

1 Business suitability

In principle, any trading business can be sold to an Employee Ownership Trust

Is it right for your business?

Some businesses are naturally better suited to an EOT than others. An EOT offers the opportunity to protect your team, preserve your culture, and find a succession plan that keeps your business independent.

If your business has a tradition of directly engaging with your team, if you work in a collaborative manner, or if your team is entrepreneurial, then EO could have a lot to offer.

Eligibility criteria

To qualify for the tax benefits associated with an EOT sale, your business must meet certain conditions. One is the participator rule. Broadly speaking, you need at least five employees for every two shareholders. This ratio must be in place for at least 12 months before the sale. Shares must also be sold by individuals (not a holding company).

Suitability signals

Strong desire for continuity.
Healthy culture & care for the team.
Sustainable profitability.
Wish to retain independence.

Aggressive acquisition or growth plans.
Highly volatile income or profits.
Dependence on one or two key people.
Multiple employees already holding shares.

Non-trading or purely investment businesses.
Founders seeking immediate, full cash exit.

2 Letting go **of control**

To qualify for the tax benefits associated with an EOT sale, you must sell a controlling stake (51% or more) in your business to the EOT.

An emotional shift

Understanding this in theory is one thing, but can you live with it? You've poured years of hard work into your business. You've pulled the company through all kinds of situations and taken some stressful financial risks. Yet you're here. Still standing. Proud of what you and your team have achieved. Relinquishing control can feel hard.

"We now deal with things in a more collaborative manner, which by its nature means more discussion."

Danny Ryan, Kudos Records

Your role post sale

Some founders quickly disappear into the sunset. Some remain as full-time managing director. But most take a phased approach, reducing involvement gradually while helping the team adjust. If you do continue to lead, you need to understand, on key matters, the EOT board has the power to overrule you.

One of the main psychological shifts is to recognise that you, and your fellow leaders, are now working on behalf of all your colleagues. The staff are now majority owners of what was your business.

An EOT isn't about one successor; it's about sharing power with a new body. Building a healthy relationship with the EOT board is crucial, as they ensure the company is run in the interests of employees.

Ask yourself

Am I ready to give up ultimate control?

Am I comfortable being challenged or overruled?

3 Your business **valuation**

You can sell your shares for anything up to 'fair market value'. But how do you know what that figure is?

The answer is to get an independent valuation

Find the right price

Valuations will always carry a degree of subjectivity. There are different methods and metrics which can be used when preparing valuations, and widely different outcomes can result. The temptation for founders is to take the highest number. After all, you've worked hard for this moment, and employees aren't directly writing the cheque, so why not?

Who really pays?

The reality is it's your staff who pay the price - through effort not cash. The higher the valuation, the longer the business will need to funnel a larger chunk of profits back to you. That means less money available for investment in growth, or profit share with employees. At best, you put the team on an uphill slog. At worst, they realise there's little in it for them, multiple staff leave, the business struggles, putting payments to you in jeopardy.

Fair and achievable

The tax breaks on EOT sales are attractive, but don't view the deal simply through a tax lens. If the company fails within four to five years, not only will you get no remaining deferred consideration payments, but you'll also lose the CGT relief. A valuation that looks good on paper, but is unsustainable in practice, risks both your payout and your legacy.

Smart founders aim for a fair, achievable price - one the company can realistically afford to pay back. That way, you secure your payout, the staff stay motivated, and the business has the best chance of thriving long into the future.

> Bring your EOT Board in early. HMRC requires trustees to confirm a fair valuation, so they need time to question the price, payment terms, and deal structure.

Ask yourself

Is the valuation and payment plan realistic?

Will this price affect my team's motivation?

4 How you get paid

Before the sale, the equation is simple: you own the shares, and the profits are yours. After the sale, the EOT owns the majority of shares. While you could gift your shares to the EOT, in practice most founders sell. But where does the money come from?

Funding the sale

An EOT begins with no funds, but once it owns the company it can use retained and future profits to pay you. This is a vendor-financed sale: you sell the business but also lend the money to the buyer, with repayment coming from profits. Existing cash reserves may provide an up-front sum, while the rest is paid from future profits, typically over anywhere from three to eight years. This is part of the sale is called the deferred consideration. Early profits usually go toward repaying you, so staff may see little or no profit share at first.

> If you're using the sale as part of a retirement plan, speak to an independent financial adviser. Understanding your own income needs before you set the sale terms will help you sleep at night.

Tax and timing

One of the tax perks of an EOT sale is that half the sale price benefits from Capital Gains Tax (CGT) relief. You'll typically pay 24% on the taxable half, hence an effective rate of 12% on the total sale. If you're thinking of selling in a few years, consider reducing your income from the company beforehand to build up a war chest. These reserves can be used as an up-front payment.

Reducing risk

A decent up-front payment gives you a safety net. If the worst happens, and the company fails soon after the EOT sale, at least you would have secured a meaningful portion of the value you created (though CGT might be payable).

> "Think carefully about who you engage to provide legal and financial advice. Make sure you choose people who really know the sector and not just the theory."
>
> **Arabella Lewis-Smith, Salad Creative**

Ask yourself

Am I comfortable being paid over time, rather than in one lump sum?

5 Direct vs indirect **ownership**

Direct

Before selling, ownership is simple: you hold the shares and your name is on the share certificates. This is direct ownership. If you pass the business on via a trade sale or management buy out (MBO), one or more individuals step into your shoes. They buy and own the shares in their own name, and carry the risks and rewards that come with that. They replace you.

Indirect

An Employee Ownership Trust (EOT) is different. If you sell 100% of your shares to a trust, no individual employee's name appears on the share certificates. Instead, the trust holds the shares on behalf of all employees - current and future. Your staff become the beneficiaries, entitled to share in the profits and have their interests represented by the trustee board.

What it means for employees

For staff, the upside is they don't put any of their own money into the business. If the company fails, the most they stand to lose is their job. So no change there. The downside is that they don't personally own anything they can sell, or take with them if they leave the company.

Hybrid models

The tax benefits for EOTs only apply when the EOT owns a controlling stake, at least 51%. This leaves 49% of the company available. Some companies use this flexibility to offer managers or key staff a personal stake in the business. This approach can reward people directly while the EOT maintains overall control.

> A 100% EOT ownership is a powerful model. But senior team having direct ownership can add a layer of security. With a personal stake, they're more likely to dig in and see the business through tough times.

"Them vs Us" mindset

When less than 100% of the business is owned by the EOT, there may be a more "Them vs Us" mentality. Anecdotally, businesses that sell just over 50% of shares to an EOT can feel "a little less employee owned". It's difficult to pinpoint where that threshold changes, but, for founders, knowing this may have an impact on how you want the transition to be perceived.

> "Rather than the team feeling answerable just to me, they now feel more answerable to each other"
>
> **Danny Ryan, Kudos Records**

6 EOT power structure

In privately owned companies, there is a linear power structure. Shareholders sit at the top, directors below them, employees at the bottom.

In small companies, the shareholders and directors are often the same people, blurring the lines between ownership and management.

A new balance

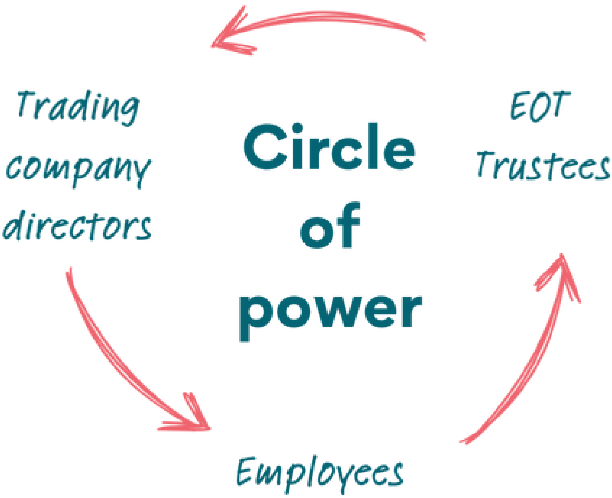
When a business becomes EOT controlled, that hierarchy changes. Even if you remain a director, you are no longer the main shareholder. The EOT now has that role, and with it, the right to hold leadership to account.

The circle of power

In an EOT, power is shared between the trustees, the directors, and the employees. While the company's directors are still responsible for its day-to-day management, the EOT trustees act as stewards, ensuring that decisions are made in the best interests of the employees as beneficiaries. Plus, staff typically have a say in who the trustees are.

This “circle of power” means no single group dominates

Decisions must balance responsibility to the workforce with the need to run a profitable, sustainable business. This generally aligns the goals of directors and trustees, as business success benefits everyone.



Safeguarding

The powers EOTs have over specific decisions vary from company to company. But it’s important to remember that in certain situations, such as key decisions (moving premises, large purchases etc), or substantial redundancies, the trustees do have the power to block major decisions and, in extreme cases, to remove directors.

7 The trustee **board**

These people guide the trust and ensure the business is run for the benefit of employees.

When you set up an EOT, a new company is usually created to act as the trustee. Technically, this corporate entity is the sole trustee. But in practice, it's the people sitting as directors/PSCs of this company who really matter, and it's these individuals we refer to when we use the term 'trustees'.

For small companies, three is a sensible number of trustees

Three avoids deadlock and stops any one trustee holding too much sway. Most EOTs appoint one trustee each from three camps, each bringing a different perspective.

"The trustees are very supportive of our desire to grow. They believe strongly in investing in the business."

Andrew Hickson, Kingfisher Independent Funeral Services

Who sits on the board?

Founder / director trustee

Offers continuity and deep knowledge of the company. It's common to have a founder on the board, usually while the deferred consideration is repaid. But it's important this person does not have control of the board.

Employee trustee

Represents the employee voice. Ideally someone rooted in day-to-day work (not a senior manager) who is engaged, who cares about the business and has a good sense of how employees are feeling and thinking.

Independent trustee

An external voice, often with governance or EO experience, who brings balance and objectivity.

> An independent trustee with EO knowledge is especially valuable early on. Later, as EO matures, you may want someone with skills suited to the business' needs at that time.

8 Employee voice

It's important employees understand that being employee owned doesn't mean that every individual working there suddenly gains lots of extra power. They don't.

The individual vs the collective

Individual employees have no more power than in privately owned companies. Staff are still subject to the same HR rules and can still be disciplined or made redundant. Day-to-day, authority still sits with managers and directors, just as in any other business.

What does change is collective power. It's best practice for employees to be represented on the Trust Board, which has the authority to hold directors accountable – even to remove them in extreme circumstances. That collective influence is what makes an EO business different.

"One thing I would do differently now is plan team communication in advance and think about setting up an 'ownership mindset'."

Barry Horner, Paradigm Norton

Openness matters

There are no hard rules about what must be shared with employees. However, EO businesses tend to be more transparent than privately owned ones. It's a foundational factor if you want employees to think and act like owners. Employees should be given visibility of:

Finances

Employees share in profits, so giving them a deeper understanding of the finances makes sense and will hopefully inspire them to find opportunities to improve profits.

Strategy

Understanding where the business is heading, and why, is also important. If staff know the plan, they are usually keener and in a better position to help make it happen.

Deferred consideration

Employees should have visibility over progress made with payment of the deferred consideration. Some founders may be reluctant for employees to know the numbers. But that would be like owning a house with no idea how big the mortgage is or when it might be cleared! In our view, staff need to know.

9 Ownership vs leadership

Stability after sale

Selling to an EOT changes ownership, but it doesn't have to change leadership straight away. Many founders choose to stay on as a director for a period after the sale. This can be reassuring for both you and your team – you retain influence while deferred payments are being made, and staff see continuity during a time of big change.

Planning the handover

An EOT sale marks the start of a new chapter, not necessarily the end of your involvement. Even if you stay on for a while, it's worth thinking early about how leadership will evolve after you step back. Who will carry the culture forward? How can future leaders be supported to succeed on behalf of the employee owners? Strong succession planning gives staff and trustees confidence about the business's stability.

> Every founder says they work well with their senior team. But shifting power alters the delicate balance. Keep communication open, perhaps getting support from a suitable leadership coach to help ensure a smooth transition.

Refocussing the lens

Whether you stay on or hand over, the leadership role shifts in meaning. You are no longer leading on behalf of yourself or external shareholders – you are working for and alongside your colleagues, who now collectively own the business. That psychological shift is one of the defining changes of employee ownership.

"Transaction v Transition: the former is the easy bit, relatively. The latter starts before you complete the transaction and carries on long afterwards."

Barry Horner, Paradigm Norton

Ask yourself

Do I want to remain in a leadership role, and for how long?

Am I ready to be accountable to the EOT board as well as to the employees?

10 Profit **sharing**

Managing expectations

Employee ownership is a long game. In the early years after the sale, a large proportion of profits will probably go toward repaying the deferred consideration. So profit share payments to staff may be modest or non-existent. Being open and transparent about this from the start will ensure everyone understands the situation.

Who decides?

The directors of the trading company are best placed to judge how much the business can afford to distribute. They understand the cash flow, any big bills coming, and what needs to be held back. Their decision on the size of the profit share pot must then be approved by the trustees.

The trustees also oversee how the pot is divided, but their choices are limited by the rules (see below). They cannot single out individuals or departments positively or negatively.

Tax benefits

Profit share payments are run through payroll. The first £3,600 per employee per year is income tax free (NICs still apply). As the tax is dealt with via payroll, staff won't need to file personal tax returns unless they already had to for other reasons.

How it can be shared

Evenly

Everyone gets the same

Salary

Bonuses scale with pay

Hours

Full-time vs part-time is reflected

Service length

Loyalty is rewarded

Some businesses combine methods, such as splitting 50% evenly and 50% by length of service. The important thing is that the formula is consistent and not too complicated.

> Everyone has a different idea of what's "fair". In turn, whatever system you operate, someone will think it's unfair. That's life. Adopt something simple and sensible, sticking with it until there's a good reason to change.

EOT timeline **planning**

Pre-sale

6+ months pre-sale	**Is an EOT viable for you?** Do you meet the EO suitability signals (see page 5)? Are you happy you're mentally ready to hand over control? Get an indicative valuation for your business, and check you meet the EOT criteria. **Learn more about the EO world** Consider going to an eoa event. Try to speak to other founders who have sold to an EOT, to gain a warts and all understanding.
3 months pre-sale	**Think about communication** When will you bring your leadership team on-board? And the rest of your team? There are no right answers, but you do need a plan.

Sale process

8-12 weeks pre-sale	**Valuation, payment plan and tax clearance** Independent valuation completed, a sensible payment plan agreed for the EOT sale, and details submitted to HMRC for approval.

Sale process

4-8 weeks pre-sale	**EOT and trustees set up** The EOT trustee company is formed and its trustees appointed.
2-4 weeks pre-sale	**Transition documents** Legal documents are provided, explained, reviewed, then approved.
Completion day!	**Time to celebrate**

Post-sale

1-2 weeks post-sale	**Update authorities** Make payments of stamp duty, adviser fees, and initial vendor payment. Then submit transaction confirmation details to Companies House and HMRC.
Within 4 weeks post-sale	**Gather your teams** Get your leadership team and the EOT trustee board together. This will help build rapport and make sure everyone understands their roles.
Ongoing programme	**Think about communications** Plan communication with the wider team - how will you set expectations and educate staff about being employee owned? **Build a network** Get to know other EO businesses. It's a really sharing and open community from which you'll learn lots.

EOT vs other exits

How does an EOT stack up against other exit options?

	EOT	MBO	TRADE SALE
SALE PRICE	★★	★	★★★
EASE/SPEED OF SALE	★★★	★★	★
SPEED OF PAYMENT	★	★★★	★★★
FEE AFFORDABILITY	★★★	★★	★
TAX LIABILITIES	★★★	★★	★★
LEGACY RETENTION	★★★	★★	★
BENEFIT TO EMPLOYEES	★★★	★★	★

★★★ BEST ★★ AVERAGE ★ WORST

EOT myths

BUSTED

The myth

“Employee-owned businesses don’t grow”

The stats

64% of EO Businesses grew their headcount in the past five years, compared to just 41% of non-EOBs.

EO businesses are 8-12% more productive than traditional businesses, measured by Gross Value Added per employee.

The myth

“My staff won’t be motivated by ownership”

The stats

57% of EO businesses have seen **profits increase** since transitioning.

EO firms are **25% more likely** than non-EOBs to have experienced **profit growth** over the past five years.

EOBs are **50% more likely** than non-EOBs to offer **financial wellbeing support**.

* all statistics are from the eoa report “People powered growth” 2023

EOT glossary

Beneficial owners

Present and future employees of the company.

Deferred consideration

The part of the sale price that's paid to the founder over time.

Employee Ownership Trust (EOT)

Trust structure that holds shares on behalf of employees.

Founder tax perks

Half the portion of the sale benefits from Capital Gains Tax (CGT) relief. You'll typically pay 24% on the taxable half, hence an effective rate of 12% on the total sale if you are in the top tax bracket.

Participator ratio rule

To qualify for the founder tax perks, shareholders and their close relatives (called participators) must make up less than 40% of the total workforce.

Trustees / Trustee board

The people responsible for ensuring the business is run in the employees' interests.

Vendor-financed sale

The seller (founder) lends money to the trust, which it repays from future profits.

Next **steps**

Write the next chapter for your business

"Try the EOT Explorer tool on our website to see if an EOT is a viable option for your business.

When you're ready to make the move, Go EO can manage the full transition - from valuation to legal completion - through our streamlined, fixed-price service."

"If you're seeking an experienced, pragmatic guide to help with governance structures, the role of leadership, and building an owners' mindset, Ian brings a deep understanding of these areas from working with a range of leading UK EO companies."

Employee ownership is a way to secure your legacy: protecting jobs, keeping the business rooted in its community, and preserving the culture that's helped it thrive.

Any questions?

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