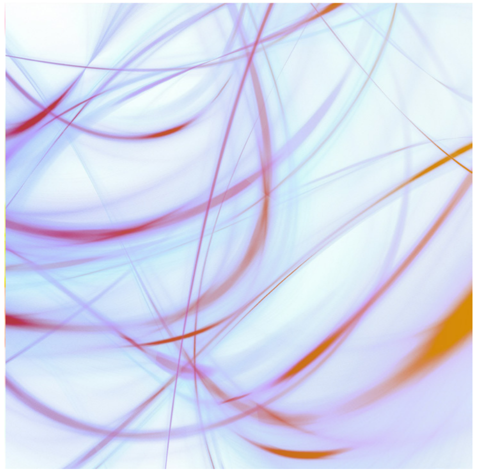
Buzzacott

Employee Ownership Trusts (EOT) or Vendor Initiated Management Buy Out (VIMBO)



EOT or VIMBO are for anyone considering transferring the ownership of a business to its employees.

How we can help

You are reading this as you are considering succession in your business; you are reluctant to sell it to a trade buyer and want to see if there is a way to pass the business into employees' hands in an easy and efficient manner.

Employee Ownership Trusts, EOTs, are a tax incentivised way of transferring the ownership of a business to its employees. Unfortunately they aren't without complexity and inevitably when tax reliefs are involved there are rules which need to be adhered to that the exiting shareholder may not find agreeable.

The alternative for many clients is a VIMBO – Vendor Initiated Management Buy Out, which involves setting up a new company to acquire the shares. The team works very closely with the other Buzzacott teams, to ensure that all clients benefit from a one stop solution across all tax and accounting disciplines to ensure that value for shareholders is maximised.

What is an EOT?

This was brought in by the government to encourage employee ownership of businesses in the UK. The fundamentals are: it is a trust that is set up for the benefit of the employees of the business; the trust buys a minimum controlling interest in the company from the existing shareholders; and the employees will ultimately share in the rewards of the performance of the business through the payment of tax efficient bonuses.

To encourage take up there are various tax benefits for both the vendor and employees. The EOT can be funded on day one by third parties or it can settle any monies owed to the exiting shareholders over time.

What is a VIMBO?

A management buy out is when the current management team of a company purchases an ownership stake of the company. A Vendor Initiated Management Buy Out is when the owner of the company suggests the option of a management buy bout to the current management team and facilitates and underwrites the costs for them.

A new company is set up by the management team; funds are usually raised from a bank or private equity house and these are in turn used to purchase the shares off the exiting shareholder. There is often deferred consideration or an earnout in a VIMBO.

It is difficult to be prescriptive about the pros and cons of both options as one company's pro may be another's con depending upon exactly what they are looking to achieve, however the table below summarises the main differences and makes for an excellent starting point when beginning to consider the best option to go down.

If you have any questions, please get in touch:

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	EOT	VIMBO
Tax	Tax at 0% for exiting shareholder on disposal.	Tax at 10% (as Entrepreneur's Relief is likely to be available) on disposal.
	No Corporation tax relief on payments to the EOT.	No Corporation tax relief on payments to the exiting shareholder.
	Tax benefits lost if trust's ownership falls below 51%.	N/A
	Employees can receive bonuses of up to £3,600, which are income tax exempt, i.e. employees do not hold shares directly in the company.	No additional tax breaks, unless using an EMI scheme. VIMBO can be combined with an EBT as well.
Rights	Must transfer 51% to the trust	Can sell any proportion (subject to clearance)
	Deferred consideration for shareholder is a promise to pay. No rights can be attached if EOT fails to pay.	Deferred consideration is a contractual obligation. Vendor has rights if payment not received e.g. Step in, seat at the board etc
	Trustees can run the EOT and ultimately the company on behalf of employees.	Needs a fully formed management team.
Ownership	Predominantly indirect ownership.	Employees can only really benefit directly (i.e.owning shares).
Structure	In a trust structure that will need administering.	An extra company that may need an audit.
Accounting treatment	Payments most commonly on the face of the P&L, but can be dividends.	A liability is created in the Newco balance sheet.
	Better if holistic employee ownership is the target.	Better if concentration amongst a few and an incentive for some.
External perception	A strong message for all stakeholders including customers and suppliers.	N/A
Other	Stamp duty is payable.	Stamp duty is payable.
	Greater longevity as employees change and move on.	More focused on a shorter term 5–10 years. Could still evolve into an EOT.