Employee Ownership Trusts (EOTs)

A guide for Law Firms

Postlethwaite

Why consider Employee Ownership for your law firm?

Employee ownership (EO) is surging in the UK, with an estimated 2,500 employee owned companies. Since 2014, the sector has surged by 1,640%, driven largely by small businesses, which make up 65% of the EO total.

There are many good reasons for the popularity of EO:

- It's flexible and can take various forms (including hybrid structures mixing direct and indirect ownership models).
- It's a good alternative method of ensuring a smooth succession for business owners.
- It can have a big impact on employee performance and engagement.
- It can have a highly positive effect on employee recruitment and retention.
- It comes with several attractive tax benefits.

The EO Sector

2500+
Employee Owned businesses

1640%
growth of Employee Owned businesses since 2014

EO is gaining momentum across the professional services sector, which now represents the largest segment of the employee-owned economy at 28%.

While accountancy, architecture and engineering firms have led the way, a growing number of law firms are now following suit. Around 30 firms have already made the move, including ourselves at Postlethwaite Solicitors, Ison Harrison, Myerson Solicitors, Stephens Scown, Hedges Law and Doyle Clayton — drawn by the model's power to support succession, engage employees and secure long-term independence.

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What are the benefits of Employee Ownership for law firms?

EO puts a law firm in the hands of the people who understand it best: those who have a strong personal commitment to its long-term success and who are motivated by their ownership to make it thrive.

EO might not be right for all law firms, for example:

- very small firms, i.e. five employees or fewer;
- international firms; and
- firms with a very hierarchical culture.

However, for those for whom EO is appropriate, there can be multiple possible benefits to all parties – the partners, the staff and the business itself.

POSSIBLE BENEFITS OF EMPLOYEE OWNERSHIP FOR:

1 The Business Owners/ Partners

- Realise the value built up in your practice, free of CGT (subject to certain conditions).
- Solve your succession conundrum without the need to find new investment/partners/ buyers.
- Implement leadership changes over time.
- Reward and incentivise staff.
- Generous tax incentives.
- Peace of mind the business is in good hands.

2 The Business

- Create a strong foundation for future growth.
- No risk to firm culture or values (unlike a sale/ merger).
- Give the firm an edge in the battle for talent.
- Improves productivity and performance.
- Can enhance employee engagement and morale.
- Continuity (no need for runoff insurance).
- Often no need to take on debt.

3 The Employees

- A sense of shared purpose may lead to greater motivation, engagement and commitment.
- No change to employment status or, working conditions.
- No personal investment needed.
- Greater visibility of and consultation about business decisions.
- Regular, full share in rewards of business success for all who are eligible.
- Tax free bonus available.

What is an Employee Ownership Trust (EOT)?

An Employee Ownership Trust (EOT) is a trust created to hold shares in a company on behalf of its employees so that they, indirectly, become the collective owners.

Employees do not hold shares individually and are not required to make any cash investment to benefit from the EOT.

EOTs were created by the UK government in 2014 and currently offer two tax incentives:

- Those selling shares to an EOT may do so free of capital gains tax as long as the EOT acquires a controlling interest (more than 50%).
- Once the company is owned by the EOT, tax free bonus of up to £3,600 can be paid to staff each year (as long as all are included and paid on the same terms).

How does our law firm become owned by an EOT?

The diagram on page 5 shows how it generally works, however there are some extra steps which law firms need to take before becoming an EOT:

- A law firm which is an unincorporated partnership or limited liability partnership will need to incorporate as a limited company before it can become an EOT.
- This new entity will need to be approved by the Solicitors Regulation Authority (SRA).
- The shares in the company can then be transferred to the EOT.
- The EOT must also be approved by the SRA as a licensed body or ABS.

To secure SRA approval for your limited company and EOT we will work with our trusted partners, who are specialists in SRA compliance and with whom we work regularly.

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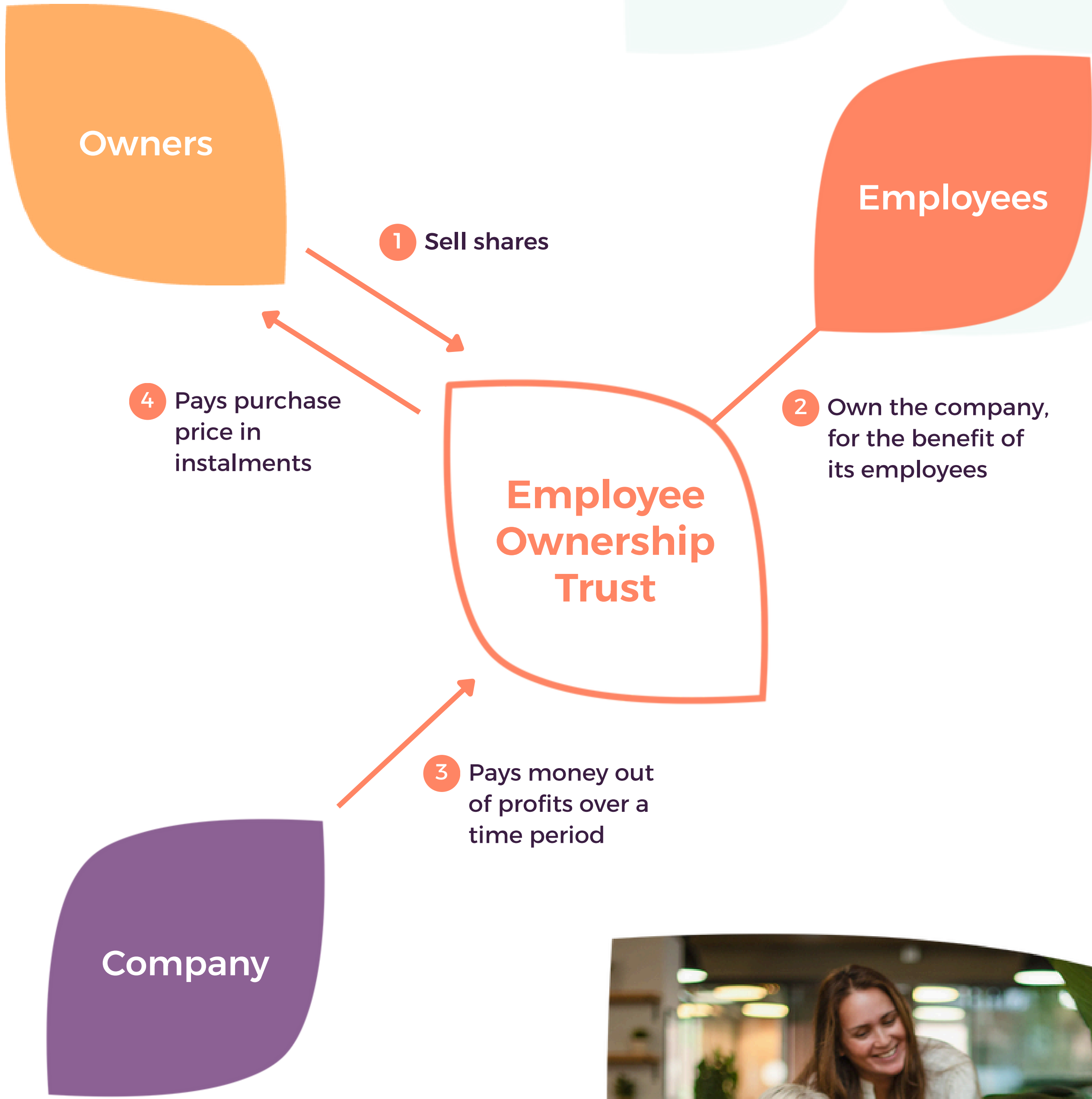
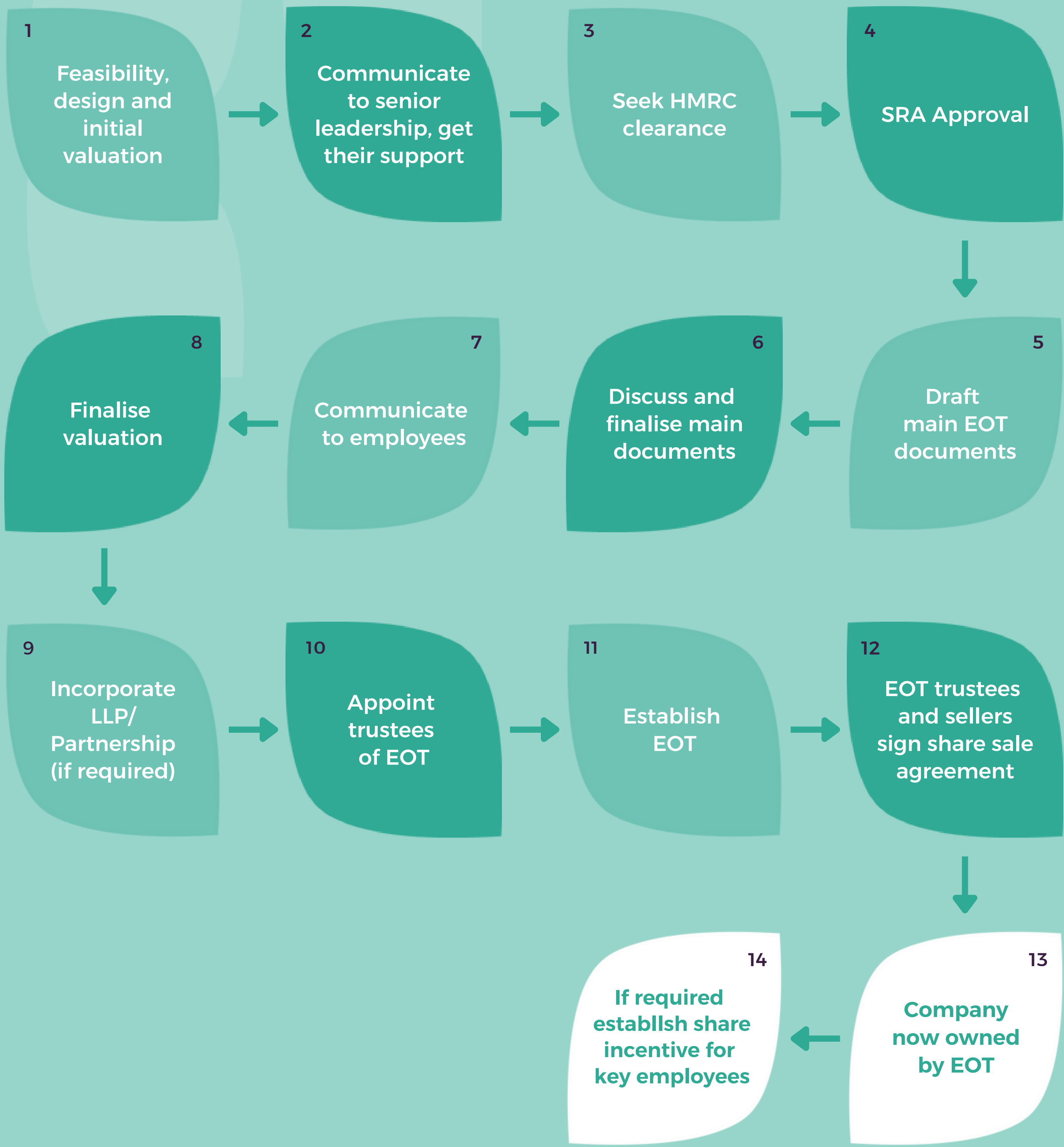
How does a company typically become owned by an EOT?



Key steps and timings for law firms



Given the extra steps required for a law firm to become an EOT, you should allow six to nine months to complete the process.

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How can we help you?

We are a team of specialist employee ownership and share scheme lawyers. We have over 20 years' experience helping over 200 businesses, in many different sectors, including several law firms, become employee owned.

We are 100% employee owned ourselves so you can be confident that we have a deep, practical understanding of what works best and the potential issues which may need to be addressed.

Our unrivalled experience together with our enthusiasm for employee ownership means we can help you make the right decisions and guide you seamlessly through the process, delivering the best outcomes for you and your law firm.

We pride ourselves on working collaboratively with your partners, employees and other advisers.

Helping you make the right decisions

We will:

1. listen to what you want to achieve and help design an EO structure that is right for you, your law firm and its employees.
2. implement all necessary preliminary steps to ensure that your law firm is correctly structured and has all the regulatory approvals it needs to become an EOT.
3. guide you through the implementation process, provide all necessary technical advice and draft all legal documentation.
4. help you communicate these important changes to your workforce effectively.
5. manage the project in accordance with your desired timescale.

Living our values: Postlethwaite's journey to becoming employee owned

Postlethwaite Solicitors became 100% employee owned in March 2023. Our founder and managing director, **Robert Postlethwaite** shares his thoughts about our firm's EOT journey; what motivated him and how he has found the process.

"For a long time, our focus was simply on working to grow the firm but as time went on we did start to think about what the future would look like, I think that's a natural evolution. In particular, we started to contemplate what my succession solution would be as I got older. There were two parts to that – ownership and, separately, leadership, both need to be resolved when you are considering how and when to exit a business you have built. We may have found our ownership solution by becoming an EOT but we are still working on the leadership solution which is arguably more challenging.

Obviously, I've spent many years immersed in employee ownership so there was a compelling logic to go down a route I knew so well, it just started to look like the right thing to do. I can't say there was one single reason that persuaded us, more a coming together of various factors. We have always had a genuinely supportive and collaborative working culture at Postlethwaite, we're not a hierarchical place so an EOT seemed like a good fit and entirely in-line with our existing values.

Our plans were put on ice because of Covid but once we started the process it took about 12 months to complete. We could have done it quicker, but we really wanted to take our time to make sure everyone at the firm knew and understood what was going on. My advice to anyone else doing this would be not to rush and to communicate really well with your staff about what is happening.

For us, becoming employee owned has been a really positive experience overall. It seems to have supercharged our collaborative culture, how team members have worked together since the change has exceeded my expectations and lightened my load a bit, everyone seems really invigorated and enthused by what we have done.

CONTINUES ➤

Robert Postlethwaite signing the completion documents in March 2023 when the firm officially became EO

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This first appeared as a blog interview for our partners, LegalEdge.

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Our recruiters also tell us that more candidates have expressed interest in joining us since we became an EOT – as a business, attracting the right people has always been a constraint on growth so we are really happy to hear this.

As much as I'm an enthusiastic advocate for EOTs I would never claim that it is right for everyone. Many people understand that there are generous tax advantages to doing it but the old adage, don't let the tax tail wag the dog, still holds true!

Founder/owners need to carefully consider if it's right for them and be realistic about whether they could make it work. When you are used to being in charge and making all the decisions you have to be realistic about whether you will be able to change your behaviours. Once you put your business into an EOT you are no longer the owner, you are another employee subject to all the same rules and regulations with no special treatment.

So far becoming employee owned has been an immensely rewarding experience, and I'm thrilled about the exciting and positive chapter we're building for the firm."

The Postlethwaite team celebrating the move to EO

CASE STUDY:
ORIGIN

origin
IP AND TECH LAW

The business

Origin Limited is a law firm specialising in intellectual property and technology law, and regulated by the Solicitors Regulation Authority.

Founded in 1988 by Peter Langley, Origin helps a range of technology companies, from start ups through to major established and international businesses, navigate the unremittingly complex intellectual property landscape.

Why Employee Ownership (EO)?

After both owning and running Origin for over 30 years, Peter was looking for a succession solution that would be right for the company, foster maximum employee engagement and create a strong platform for further growth.

After extensive research, Peter identified a sale to an employee ownership trust (EOT) as the likely best way to achieve the company's succession goals. Although companies across a wide range of sectors are adopting this model, it hadn't been adopted by many law firms, so Peter and his colleagues were keen to evaluate its feasibility in their company.

It quickly became clear that it was perfectly possible for a solicitors practice to become owned by an EOT.

Peter identified a sale to an employee ownership trust (EOT) as the likely best way to achieve the company's succession goals

Working with us

Once engaged, we discussed what Origin wanted to achieve and developed a plan which set out how they would move to EO, the key steps to be undertaken and gave advice on taxation. We separately commissioned advice on a valuation and how to obtain permission from the SRA for this ownership change.

We then arranged legal implementation, tax clearance with HMRC and helped communicate the new ownership to employees and project managing the entire transaction.

How long did SRA approval take?

Because Origin was already a company, there was one stage to the SRA approval process, which took approximately three months.

How does it work?

Origin is now 100% owned by an EOT which has three trustees: two employees and (initially) Peter Langley. The EOT is paying for its shares over a period of years, funded out of the company's profits.

Who runs the company?

Origin currently has two directors, Peter as managing director and also a non-executive director. Leadership succession is planned.

Looking forward

Origin's expertise, reputation and people, put it in a strong position to enjoy further growth in a market full of opportunity. A key role for the EOT is to ensure that Origin has employee owners who are engaged in the business and motivated to work together energetically to achieve, and benefit from, further growth.

What our clients and partners say

I recently had the pleasure of working with Robert Postlethwaite and his team at Postlethwaite's Solicitors in connection with the establishment of an Employee Ownership Trust for a client of my firm. We chose to work with Postlethwaite's as they came highly recommended from other firms that had worked with them.

From the outset, I was extremely impressed with their level of professionalism, expertise, and commitment to getting things done quickly and efficiently. They took the time to listen our client's needs and concerns and provided clear and concise guidance on the best course of action to take.

One of the service highlights that stood out to me was that Robert had an excellent knowledge on the technical aspects required as well as a sound practical experience of how to set up and manage an Employee Ownership Trust in practice.

Overall, I would highly recommend Postlethwaite's to any business owner looking to set up an Employee Ownership Trust or to any other Employee Incentive arrangements."

Stuart Hinnigan, Director, Scott & Wilkinson Accountants

We have worked closely with Postlethwaite Solicitors for many years and more recently on several EOT transactions. They are always responsive and timely in dealing with both us and our clients, and their advice is always clear, particularly when discussing some of the more technical tax issues. David Reuben is a pleasure to work with. He always goes above and beyond, and overall we consider the team at Postlethwaite Solicitors to be experts in the Employee Ownership field"

Anthony Rose, Partner, Private Clients & Dispute Resolution at Simmons Gainsford

The firm has great technical knowledge and can provide really useful and helpful advice. They were always very prompt to reply to any questions that were being raised."

Chambers & Partners research 2024

Wonderful support, professional service and on time delivery – exactly where you need to go for an EOT transaction."

Atal Malviya, Director, Concepto Diagnostics

Many thanks to David, Toby and the team at Postlethwaite for their impressive work on completing our EOT. Highly efficient and very easy to work with, they made the whole thing painless!"

Simon Mellinger, Managing Director, Hattons of London

Meet the Postlethwaite team

We are 100% employee owned ourselves, regulated by the Solicitors Regulation Authority (SRA), and have top firm and lawyer rankings for several consecutive years with Law Guides, Chambers & Partners and Legal 500.

You can therefore be sure you're making the right decision when choosing to work with us.

THE SOLICITORS

Robert Postlethwaite
Partner and Managing Director

Robert set up Postlethwaite in 2003. He's the author of 'The Employee Ownership Manual' written and independently published and top tier ranked for 16 years by Chambers & Partners.

David Reuben
Partner

David has worked at Postlethwaite since 2010. He is an expert in share schemes and employee ownership transitions. He has been top tier ranked for 14 years by Chambers & Partners.

Toby Locke
Share Plans Director

Judith Harris
Senior Solicitor

Hannah Tinsley
Trainee Solicitor

Sezen Komili
Trainee Solicitor

Contact us

For an informal discussion without cost or commitment, call or email us via the details below.

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