
newsbrief

April 2020



WEBINARS

Esop's Tales – The Foundation of the Esop Centre.

The Esop Centre broadcast its first webinar on Friday April 3. Malcolm Hurlston CBE told the tale of his founding the Centre, from when an American flight attendant first mentioned “Esops”, his inspiration, the first UK Esops and how he set up the Centre with its first members. You can hear the recording at <https://youtu.be/XB98kNPhkJo> and <https://fsclub.zyen.com/events/webinars/esops-tales/>.

Enterprise Management Incentives (EMIs) – Igniting Your Business by Sharing Success

Friday April 24 at 12 noon BST.

In the second Centre webinar, David Craddock, share scheme expert and author of The Tolley's Guide to Employee Share Schemes, will demonstrate the nuts and bolts of [setting up and running an EMI plan](#).

Broadening horizons, Z/Yen Group Limited is hosting a range of webinars over the coming weeks. For a full listing of Z/Yen, Long Finance, FS Club, and Esop Centre webinars look here - <https://fsclub.zyen.com/events/webinars/> - or sign up for mailings - <https://fsclub.zyen.com/#Subscribe>.

Our weekly **Employee Share Ownership Bulletin** also tracks research institute and other thinking round the world - <https://fsclubcrm.zyen.com/newsletter/1966>.

EOT survey 2020

April 29 11:00 – 11:30am BST – RM2

There are now 350 Employee Ownership Trusts in the UK. This is one of the fastest growing succession solutions for private companies, and with good reason. With the help of Professor Andrew Robinson from the University of Leeds, RM2 has built a comprehensive database of EOTs.

If you are already EOT-owned, or if you are contemplating this step, [join this webinar](#) to benchmark yourself against the national picture.

EVENTS

Employee share schemes and trustees – Jersey

Our Jersey share schemes and trustees seminar, held in partnership with the Society of Trust & Estate Practitioners (STEP - Jersey branch), is scheduled to take place at the Pomme d'Or Hotel in St Helier on June 12 but the date is under active review.

Given the hiatus in post Brexit negotiations, corporate governance, the international reach of trustees and the growth in employee ownership trusts, it has never been more important for those interested in Eso schemes and trusteeship to attend this annual seminar.

The programme includes updates on the loan charge, case law, and Esops. The seminar will conclude with a lunch for delegates and speakers. Experts include: Katherine Neal, Ogier; Graham Muir, CMS; David Pett, Temple Tax Chambers and David Craddock, David Craddock Consultancy Services. The seminar will be

chaired by Malcolm Hurlston CBE, who first visited the Pomme d'Or during his national service in 1957. "Those were uncertain times and I wondered whether I would be able to travel so far again" he reveals. "Not unlike now".

Prices: Esop Centre/STEP members: £375, Non-members: £480. Book and pay before May 1 to secure a choice of earlybird discounts. Email events@esopcentre.com or call the Centre on +44 (0)20 7562 0586.

British Isles share plan symposium – October 15

The Centre is happy to announce that its fourth annual [share plans symposium](#) and *newspad* Awards presentation will take place on the revised date of Thursday October 15 2020. An impressive Central London location has been secured. The programme will be as advertised on the Centre website for the original event, postponed from March 26 owing to coronavirus, with one or two topic slots updated. The Centre thanks **Ocorian** for sponsoring the event. For all enquiries, contact Juliet at juliet_wigzell@zyen.com or call +44 (0)20 7562 0586.

CENTRE AND MEMBERS' NEWS

Budget 2020 – lost in the details?

MM&K [revisits the recent Budget](#) - a mix of direct responses to the COVID-19 outbreak, as well as planning for the future (including in a post-Brexit world!).

Homeworking revolution only for the privileged?

Much has been made recently of the move towards greater use of remote working. But for the great majority of those locked-down at home, normal working is impossible. In his recent [article for the Telegraph](#) and in a short [video](#) for the Institute of Economic Affairs, friend of the Centre, Professor Len

Shackleton suggests politicians should keep in mind that over 86 percent of workers cannot work *at home*, when making policy for our return to normality.

RM2 Blog: What happens to my EMI options if I am furloughed?

Is furloughing a disqualifying event? If a company has [Enterprise Management Incentive option holders](#) who won't be working for the company during a period of "being furloughed", RM2 is of the view that technically it is a "disqualifying event" under EMI legislation and the relevant tax advantages for the individual participant could potentially be lost. This is because the employee would have no "committed time" as defined in the EMI legislation as the employee would not be required to spend any time on the business of the company (and in fact would be required not to do so). This issue has been raised with HMRC and there is hope that the government will publish a concession similar to the one for EMI option holders called up as armed forces reservists.

UKSA launches hidden debt campaign

UK Shareholders Association, with which the Centre has reciprocal membership arrangements, is to campaign for focus on "hidden debt". These are arrangements through which insurance companies and others take on debt which does not appear as such in the accounts but could be detrimental to shareholders, including employee shareholders. Malcolm Hurlston joined the UKSA board earlier this year and will be advising on the campaign.

Computershare – Jersey office move postponed

Staff were expecting to move to new offices at 13 Castle Street, St Helier on April 6, but will now remain at Queensway House, Hilgrove Street, St Helier, JE1 1ES until further notice.

NCEO 2020 conference goes Virtual

NCEO's [2020 Employee Ownership Conference](#), April 20-22 with sessions on Esop sustainability, ownership culture and engagement and COVID-19 considerations is going ahead as a virtual event. This creates a unique opportunity for Centre members to take part equally in the world-leading event.

Registration is only \$280 and offers: access to three days of more than 100 breakout sessions; networking opportunities with employee-owners, C-suite executives, and subject matter experts; and continuing education credit. Be there and go square (according to the size of your screen...)

UK NEWS

Tax and legislation changes impacting reward

With the arrival of the new tax year, new measures impacting pay and benefits are set to come into effect. Employee Benefits magazine has produced a [round-up](#) of measures which came into effect on April 6 2020.

Government slashes tax relief for entrepreneurs

It has been criticised as “Britain’s worst tax break” and is now being dramatically scaled back.

[Entrepreneurs’ Relief](#) reduces the amount of capital gains tax founders pay when selling shares in their company, taking the tax rate down to 10 percent— compared to the normal 20 percent — up to a value of £10m over an individual’s lifetime. Chancellor Rishi Sunak held back from abolishing the measure completely, but cut back the amount of relief that can be claimed to £1m - the level of relief that was available when it was originally rolled out in 2008.

The original idea of the tax break was to encourage entrepreneurship, but organisations like the Institute of Fiscal Studies (IFS) have claimed it has had little impact. In 2017-18 the IFS calculated that the tax break — which cost the UK £2.3bn — mainly benefited a small group of wealthy people. Some three-quarters of the relief went to just 5,000 individuals, who made average tax savings of £350,000 each. A similar study by think-tank the Resolution Foundation found that in 2015-16, some 82 percent of beneficiaries were men with a typical age of 57.

This may be punishing for a few fat cats and a healthy reminder of the need to involve all employees. But the good news is that, according to leading EOT lender Garry Karch of Doyle Clayton, it works to the [advantage of small business owners who want to sell](#) now.

How can employers engage younger employees with share schemes?

With job-hopping becoming the norm, [share scheme models may have to adapt](#) to provide earlier payments to more immediately engage younger employees. Clear and constant communication is needed to ensure staff have bought into the scheme, and in turn, the objectives of the business. Share schemes can be an active reflection of the values held by an organisation, a factor becoming increasingly important to younger employees.

[Share schemes must present attractive returns, writes Centre chairman](#), Malcolm Hurlston CBE, in Employee Benefits Magazine. If early assessments of Generation Z are on the money, they will be like chalk to the Millennial cheese, leaving employers with the most interesting communications challenge they have ever faced with young people. Gen Z appear to be old before its time, the first generation ever to be thinking about the future from

day one in work, and even wanting to be spoken to about it.

The problem for employers is having to address young people at the same time as Generation Y, who already present a unique problem. Evidence is now appearing that Millennials, although their demeanour suggests they may leave any day soon, fear the real world so much that they stay on longer than their predecessors.

Onward for Esop

New thinktank Onward sees [Esop as a way to help the young](#). It is led by former adviser to Theresa May, Will Tanner. He launched it in an article in the *Telegraph* at a time when younger people face permanent relative impoverishment.

It is not Esops as we know them but a welcome interest in bringing new ways to the structure we inherit.

BA deal to suspend thousands of its workers

As reported by the BBC, British Airways reached a deal to [suspend more than 30,000](#) of its cabin crew and ground staff for the time being. The airline, which has grounded most of its fleet owing to coronavirus, had been locked in talks with unions for more than a week.

Justifying the decision, BA boss Alex Cruz said: "We need to act now to protect jobs and ensure that BA comes out the other side of this crisis in the best possible shape. The number of colleagues who will be furloughed reflects the significant drop in flying". Under the jobs retention scheme, the government funds 80 percent of someone's salary capped at a maximum of £2,500 a month. But union Unite said there would be no cap on earnings under its agreement with BA.

The Centre is watching for the impact on share schemes, which were a BA priority when John Redwood's wife was secretary and the company was self-standing..

Issue of shares to Serco Group's Employee share ownership trust

Serco Group has applied to the FCA and the London Stock Exchange for the listing of an additional 10million ordinary shares of two pence each in the company to trade on the London Stock Exchange and to be admitted to the FCA's Official List. The Ordinary Shares will be issued to the trustee of [Serco's Employee Share Ownership Trust](#) and used to satisfy awards and options vesting in 2020 under the Serco Group Deferred Bonus Plan and the Serco Group Performance Share Plan.

Daily Mail and General Trust offers 2,400 employees shares to avoid pay cuts

According to Employee Benefits Magazine, Daily Mail and General Trust (DMGT) parent organisation of DMG Media, has offered shares to 2,400 employees. The senior management team is offering this alternative approach to employees working within its group of businesses including Daily Mail, Metro and MailOnline, to avoid making redundancies or furloughing.

Employees earning £40,000 or below will be able to take a pay cut of one to 26 percent in exchange for shares within the parent business, effective immediately.

At the end of the financial year, employees who opt for shares could make a profit. If the share price is lower than when the shares were awarded, employees who wish to sell will be compensated.

Paul Zwillenberg, chief executive at DMGT, said: "I would like to offer my sincere thanks to all our employees, customers, business partners and their families for their amazing work, flexibility and loyalty at this difficult time.

"These are not normal times, but I have been truly inspired by the ability of all DMGT's organisations to adapt to the current restrictions and maintain their standards of excellence."

Loan charge contractors face double whammy of life-changing repayment demands as past loans recalled

Computer Weekly reports that IT contractors, already facing life-changing tax bills as a result of the government's [loan charge policy](#), are now facing a double hit of payment demands from past involvement in loan remuneration schemes.

Two separate organisations, trading as FS Capital and Felicitas Solutions, have written to contractors in recent months to demand the repayment of loans previously paid out to them for work they performed over the last decade or so.

These loans were typically paid to contractors via schemes set up by third-party offshore employee benefits trusts (EBT), in place of a conventional salary, and positioned as a legal means of minimising employment tax liabilities.

At the same time, the recipients of these letters are facing separate demands from HMRC to repay the employment taxes it claims they avoided by engaging with these trusts between December 9 2010 and April 6 2019.

HMRC sees its loan charge policy as a clampdown on “disguised remuneration” and thousands of IT contractors have been handed six-figure back-dated tax bills since it was introduced in November 2017.

Although loans are not usually considered a form of taxable income, the ones paid out by these EBTs should be, says HMRC, because they were never intended to be repaid.

However, hundreds, possibly thousands, of contractors within the scope of the loan charge policy are now being chased by FS Capital and Felicitas Solutions to repay the original loans, plus interest – and their loan charge liabilities still stand.

HMRC confirmed in a statement: “Any repayment of disguised remuneration loan balances after April 5 2019 will not remove the liability to pay the loan charge. Our message to anyone who is concerned about

tax matters, or worried that they may not be able to pay tax due, is to come and talk to HMRC.”

Ogier's Katherine Neal is set to update us on the loan charge at this year's employee share schemes and trustees seminar in Jersey, scheduled for June 12. If the date is rearranged we hope to hear from Paul Malin of Haines Watts who normally shares his HMRC insights.

WORLD NEWS

US: Senseonics offers equity grants to attract employees

Senseonics Holdings Inc, a medical technology company focused on the development and commercialisation of a long-term, implantable continuous glucose monitoring (CGM) system for people with diabetes, has made [equity grants to new non-executive employees](#) under its 2019 Inducement Plan in accordance with NYSE American Company Guide Section 711(a).

On April 2 2020, Senseonics Compensation Committee granted five new non-executive employees non-qualified stock options to purchase an aggregate of 238,000 shares of the company's common stock as an inducement for such employees to join the company. The options have an exercise price of \$0.55 per share. In each case, 25 percent of the shares underlying the options will vest on the first anniversary of the employees start date, with the remainder vesting in monthly instalments over the subsequent three year period, in all cases contingent on such employees continued service with the company at the applicable vesting date.

US: Employee empowerment

Realising the importance of an exit strategy Dave Owens, president and ceo of Midland Financial Corp, took the [first steps to make the firm employee-owned](#) at the end of January.

Owens, 54, is both continuing in his current role at Midland but also thinking about the next phases of his life and career. “I think everything is timing,” he says. “From my standpoint, we’ve been very successful as a business, and I was looking for some kind of strategy to slowly transition. I don’t want to just sell the business. I appreciate all that our people have done, and I like the [employee stock ownership plan] strategy, so I can share some of the success with them as we go forward.”

Although becoming an employee-owned company was the right move for Midland, Owens found the process complicated, with lots of different entities (attorneys, a valuation firm, a bank) involved in the Esop transition. “I have the right employees and the right type of business that works great for it,” he says. “But my advice for another business owner is that you have to be ready for the complexities of it.”

The payoffs should be well worth the challenges for Owens and his staff. “I want my employees to enjoy the benefits of this business, and I want to give them that opportunity,” he says. “I’m trying to get them to think like owners. I want them to make more decisions; I need them to.”

US: Passing the baton

Ferguson Wellman Capital Management is in the middle of an ambitious plan to [increase the number of employees who own stock](#) in the firm. It is a move aimed at addressing the demographic time bomb about to hit the plump wealth management industry.

Wealth managers want to hire and keep young people as a matter of necessity: the industry is aging fast and is full of predominantly older men who are close to retirement.

The sector struggles to attract younger and diverse professionals because it is often perceived as hard for newcomers to build a portfolio of clients from scratch. Ferguson

Wellman is differentiating itself by transitioning ownership to the majority of its employees rather than selling to an outside investor.

US: Challenges and benefits of employee owned small businesses

The Committee on Small Business held a hearing, “Challenges and Benefits of Employee-owned Small Businesses,” on Wednesday February 12.

The hearing explored some of the challenges businesses face in converting to an employee-owned model, as well as ways current federal programmes can be optimised to minimise those challenges. Click for a [recording of the hearing](#).

US: Ownership stake in PayPal for every worker

PayPal’s ceo [told investors and customers](#) that the California-based electronic payments company deserves kudos for its performance last year. In a [letter to the PayPal community](#) posted on LinkedIn on April 9, Dan Schulman said the company ended last year with many accomplishments.

“What was once a checkout button has been transformed into a financial services and commerce platform driven by a mission to help merchants and consumers join and thrive in the global economy,” the executive wrote.

The note was first published in PayPal’s 2019 Annual Report. Noting that PayPal employees are among the company’s most important assets, Schulman said wages were increased and the cost of healthcare for some workers was lowered by an average of 58 percent. In addition, the employee benefits package now includes an *ownership stake in PayPal for every worker*. “Investing in our employees will help us better serve our customers and ultimately drive long-term value,” he wrote.

US: Does private equity deserve a public bailout?

The *New York Times* reports that in the competition for a federal bailout, venture capital won the first round. Now, [private equity is fighting back](#) — and winning some battles.

The first round was the \$350 billion *Paycheck Protection Program*, which provides forgivable loans of up to 2.5 times companies' monthly payroll. The programme is limited to businesses with no more than 500 employees, and it specifically excludes financial firms.

Businesses are flocking to the programme, but the Small Business Administration barred most companies that are funded by venture and PE firms. The administration's affiliate rule lumps together businesses with common controlling shareholders, so all of a firm's majority-owned businesses count towards the employee limit. Private equity has lobbied vociferously for a waiver, but the government has not granted one. Gains will be elsewhere.

India: Use Esops to reduce COVID-19 salary burden

Start-ups must consider mergers and Esops to minimise cost, maximise cash, said the former Infosys cfo Mohandas Pai. *Inc42* reports, as India is facing one of the longest [economic slowdowns in its history](#), the idea of being “ignored and overlooked” has become a common bugbear for the start-up ecosystem. Take the Union Budget 2020 for instance, re: start-ups, investors agreed that the government has been successful in identifying their issues, but there was no resolution to these issues.

Suddenly, things have changed fast, and

for the worse. The COVID-19 pandemic has changed the entire market equation with over 70K deaths world over, the combined market cap of stock market companies has declined by over \$27 Tn, oil prices at a historic low and some of the biggest developing economies like India is estimated to grow at 2.5 to three percent.

As start-ups face the biggest cash crunch in their lifetimes, many founders have already agreed to give up salaries for a few months. But what if the situation worsens? While multinationals such as Disney which made billions from its Avengers franchise have also begun to furlough employees, many of the start-ups too have laid off their employees, as part of the cost cut.

Finding the balance between the business loss and human capital factors is critical and essential.

In such a scenario, Pai suggests a rescue plan. In order to cut the costs and keep the cash plan, employees too will have to give away a high percentage of their salaries. However, the founders must tell the employees who are ready to sacrifice their salaries that the same would be restored through employee stock ownership plans. This will not only keep employees motivated but also keep team spirits high in a tough time.

ABOUT NEWSBRIEF

newsbrief is the Employee Share Ownership Centre's members-only mid-month publication.

To submit a story for the next issue of *newsbrief*, sponsor the publication, or to propose someone for a member profile, contact Juliet Wigzell:

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