



ESOP STAR PROFILE



Paul Mark
Member of the
Massachusetts
House of
Representatives

Paul Mark is a Democrat member of the Massachusetts House of Representatives, elected in 2010 and

representing the second Berkshire District.

As the active Democrat in the state House of Representatives Paul has successfully reinstated state support for Esop. His constituency has a particularly high percentage of workers in Esop owned companies.

Representative Mark's support of and contribution to employee share ownership plans is seen in his proposed bills, including Bill [H.1661](#) 'An act relative to job creation through employee ownership', put forward earlier this year. The bill proposes requiring companies to notify employees of plans to sell and to give them first refusal.

Esop matters, at both federal and state level in the US, are bipartisan. The two parties and the two houses get together and agree something, which the governor or the president then enacts. In the United States, with its long history of devolved administration, many states add their own incentives to federal measures. Now the devolved administrations in the UK have more power and therefore more opportunity.

In what ways does employee share ownership serve a useful purpose?

Employee ownership is useful in so many ways from a public policy perspective. Employee ownership helps to keep profits local by encouraging local ownership which fuels local secondary economic growth, it promotes steady and stable employment opportunities by changing the perspective and goals of the business itself and ideally taking a longer term view of the business strategy, and it provides employees with a greater opportunity for involvement in their workplace which in turn provides the business with a better workforce. Keeping businesses, employees, and investments local in turn fuels economic growth, improves government revenue streams, and keeps communities vibrant. That is ultimately the goal of economic activity, a better future for all.

How can we widen and deepen the adoption and use of employee share ownership?

At the government level it is important to provide incentives as well as knowledge and educational opportunities. Incentives can come about in the form of laws and regulations that help employee owned businesses thrive. Educational opportunities that include training and planning to get employee owned businesses the financial and management skills they need to thrive are also something that government bodies should look at. In Massachusetts we revived an office of Employee Involvement and Ownership so that businesses interested in converting could get reliable information and help from a trusted source at reasonable costs.

What would you tell someone on the fence about introducing employee share ownership to their company?

Take the time to explore the options, think about what you want your legacy to be and where you want the business you have grown to be 20 years in the future, and gauge the interest of the employees for sure. If employee ownership ends up being the right thing to do, get the assistance you need to make sure it is a successful transition.

What do you think will change about employee share ownership over the next five years?

I think employee ownership will become more common and more attractive, to both owners, employees, and consumers. As more and more people care about sustainable, positive, and fair outcomes in all facets of life they are going to take an interest in who they do business with as well. I think government support will increase and traditional financial institutions will expand their participation into these type of businesses.

What has been the most important development in employee share ownership during your career?

For me personally it has been the revival of the Massachusetts Office of Employee Involvement and Ownership. This office was zero funded in our state budget during the great recession, beginning in 2008, ending a twenty year successful programme. It took me filing a budget line item for seven years before we were able to successfully get the needed funding restored. This revived office has a great opportunity now to prove itself and help a number of businesses successfully convert to an employee owned model.

What is your idea of perfect happiness?

There is no such thing.

What do you consider your greatest achievement?

It has been an amazing experience serving the people of the 2nd Berkshire District in the House of Representatives. My favorite part of that is the different projects I am able to help steer to completion that make a positive difference in the lives of the people I serve.

What historical figure do you most identify with?

I relate to President Abraham Lincoln because we both built our way up to practicing the law and serving the public from very modest means. There's a commemorative United States Penny to celebrate the 200th birthday of Lincoln that features a picture of him sitting on a log reading his law books during a break from work. That image meant a lot to me because I had to do the same thing, take a break from my blue collar labour intensive job to read my law books and finish my schooling anytime I could find around my work schedule. I think a humble beginning and difficult path to earn success makes a person really appreciate when they end up in a position to make a difference and follow their goals.

Which living person do you most admire?

Bill Russell, he is the greatest professional basketball player of all time and probably one of the most overlooked champions at the same time. Bill Russell played for the Boston Celtics and led his team to the NBA championship 11 times in the 13 years he played. He also led his college team to two NCAA basketball championships and won a gold medal for the US Olympic basketball team. Now basketball is not particularly important to me at all, but what does matter is that he looked past personal achievement and personal statistics to focus on what made the team win. He was their team leader and even served as a coach while he was a player. What clinches it for me is I had the opportunity to meet him once and he made a speech and said something along

the lines of the reason you should be alright paying taxes is that when you showed up at school the first day, your parents didn't own the building and they didn't send you with a cheque, but the school let you in and taught you for twelve years anyway. Even in public comments in his 70s he remained a champion of the same principle, that the good of all must outweigh selfishness.

Which word or phrases do you most overuse?

I tend to laugh a lot, usually really loudly.

What is your most treasured possession?

My time, because you can't get more of it once you use it and you don't know how much more you have.

EVENTS

Guernsey 2019

For those interested in employee share schemes and trusteeship it is now more important than ever to stay informed, especially given recent developments, such as the Crown Dependencies' joint initiative and the growth in the establishment of employee ownership trusts (not to mention Brexit). Our seminars offer expert views, the enjoyment of continuing education along with the opportunity to discuss and network.

This year's Esop Institute/STEP Guernsey share schemes and trustees' seminar will be on Friday November 8 at the Old Government House hotel, St Peter Port. Our UK speakers - Pett Franklin, David Craddock Consultancy Services, CMS and Haines Watts - will address the key issues currently facing trustees and employee share scheme professionals.

Hot topics will include:

- ◆ "Can HMRC ask for that?" Under CRS, Schedule 36 FA 2008 specific information

and documentation from advisers is being sought. "How did we get to this position?", "What is *reasonably required*?" and "Does HM Revenue & Customs have jurisdictional rights over the Jersey/Guernsey?" with actual examples showing how poorly drafted some Notices are leaving the recipient having to guess what is being asked for!

- ◆ Using EBTs as internal market makers for unquoted companies; managing trapped assets within EBTs
- ◆ Corporate governance changes around post employment share holding recommendations for listed companies
- ◆ UN Sustainable Development Goals and employee share schemes
- ◆ and the latest on entrepreneurs relief

The seminar will conclude with a networking lunch.

Last year's event was an outstanding success, which we look to emulate this year, building on the achievements of this industry-leading networking and learning opportunity.

Prices: Esop Centre/STEP members: £375 non-members: £480.

Book and pay before September 20 2019 to choose one of the following **early-bird discounts** for the half-day event: 50 percent off a third delegate or 10 percent off total.

Reserve your place now by emailing events@hurlstons.com or calling us on 020 7239 4971.

Centre symposium 2020: speaker slots taken

Speaker slots are being snapped up for the Centre's fourth British Isles share plans symposium, which will be hosted by senior legal member **Linklaters** at its **London** headquarters on **Thursday March 26 2020**.

Centre conferences are known throughout the sector for their speaker expertise and equally for quality of networking. Practitioner members and share plan issuer companies should apply for speaker roles before they are all reserved.

Plan issuer company representatives with an all-employee or executive equity incentive plan case study come for free. **Jennifer Rudman** of **Equiniti** will speak to a key slot: *How do you ensure that all employee plans (Sharesave and SIP) continue to be relevant and provide benefits for today's workforce?* **Colin Kendon**, partner, employee incentives, at **Bird & Bird**, will deliver a frank assessment of the hugely popular **Enterprise Management Incentive (EMI)** share options based approved scheme for selected employees; **David Craddock**, who heads his eponymously named share schemes consultancy will be a speaker, as will be **Jane Jevon** of **Pett Franklin**. Her topic will be: *Company Share Option Plan (CSOP), the forgotten share scheme; unlocking its potential and avoiding its hidden pitfalls.* **Garry Karch**, the leading Esop banker, will explain *How Employee Ownership Trusts (EOTs) are structured and financed.* **Harry Meek** of **Linklaters** will join the line-up too. The Centre's contact at Linklaters, **Alexandra Beidas**, partner in the incentives division, told *newsbrief* that the firm was delighted to host the all-day event in its London auditorium. The symposium will be introduced and chaired by **Malcolm Hurlston CBE**. His opening topic will be: *How can all-employee share plan schemes be re-set to make them more popular with companies and employees?*

Solo speaker slots last up to half an hour, while 'double header' slots are allocated between 40 and 45 minutes.

A buffet lunch will be provided and participants will be invited to a drinks reception following the symposium with invited guests. The Centre thanks Linklaters for hosting the 2020 British Isles symposium.

Prices:

Speakers from practitioner member: £275

Speakers from plan issuer companies: **no charge.**

Practitioner member delegates: £395

Practitioner non-member delegates: £595
(VAT chargeable on all prices given)

Members who wish to participate in this key event – either by co-sponsoring our e-brochure and/or by delivering a presentation - should contact Fred Hackworth asap at: fhackworth@hurlstons.com or call the team on +44 (0)20 7239 4971.

Selling your business

Scottish Enterprise, North Ayrshire, South Ayrshire and East Ayrshire Councils are hosting a 'Selling your Business' **workshop** exploring succession options including employee ownership on August 28 in Irvine.

Aimed at business owners considering an exit from their company, this session offers the opportunity of hearing luxury resort Auchrannie and handmade rug manufacturers Turnberry Rug Works explain what they considered in choosing employee ownership and how things have worked for them.

CENTRE AND MEMBER NEWS

End of the share plan world for Mike Landon

Long time Centre supporter and steering committee member, Mike Landon left MM&K and the share plan world behind him on August 1 to return to university to research climate change, in particular financing the transition to a low carbon economy.

He told *newsbrief* "I have enjoyed working with the Esop Centre since soon after it was created and observed with interest the ups and downs of employee share ownership. I have been particularly impressed by all the Esop Centre has done to promote share schemes over the years." Centre chairman, Malcolm Hurlston said: "Mike has been a great contributor at all levels and we shall certainly be staying in touch. Meanwhile it is in all our interests to wish him every success on his future path."

Save our Company Share Option Plan

The **CSOP** is the longest established tax advantaged share option plan in the UK and has been in place since 1984. HMRC statistics show that its use has dropped off (inevitably) since the introduction of EMI in 2000, but last year the number of companies operating a CSOP increased for the first time since 2012, so possibly its decline has halted.

UK NEWS

Government flexes workers' rights

As part of the largest upgrade in workers' rights in a generation, millions of flexible workers will benefit from new rights and extra protections if they lose out on work, under proposed government reforms.

Advancing the **Good Work Plan**, the government will consult on proposed new measures for flexible workers, including worker compensation for late notice cancelled shifts.

The government is inviting views on flexible working and has published a consultation on **one-sided flexibility**. The consultation will be open for 12 weeks.

The Good Work Plan was announced in December 2018 and formed the government response to the independent **Taylor Review of impact modern working practices** (2017). The review found that the strength of the UK's labour market is built on flexibility but that a clearer focus was needed on quality of work as well as the quantity of jobs.

CBI confronts McDonnell on shared ownership

Director general of the CBI Carolyn Fairbairn has written to shadow chancellor John McDonnell to warn him of the damages of the proposed **inclusive ownership fund**.

Fairbairn pointed out that SMEs (with fewer than 250 employees) constituted 99 percent of UK business, while almost half of businesses already had some form of company share scheme.

This increased to 71 percent for large businesses – which account for 40 percent of employment in the UK – meaning that 7.5m individuals are already shareholders in the company that employs them.

"Given the proposed £500 cap per employee, we estimate that in some cases up to 90 percent of the money raised by the IOF would be returned to the Exchequer," Fairbairn said.

Fairbairn explained that the CBI had been working on developing "an alternative that protects the investment by both businesses and their employers".

She noted that "no policy provides a silver bullet" and welcomed a meeting with McDonnell to further discuss the CBI proposal.

The Labour Party has been contacted for comment.

Advance loans in disguised remuneration schemes break tax rules

HMRC is warning that some disguised remuneration schemes used by umbrella companies to avoid income tax and National Insurance contributions (NICs) by using loan advances **contravene tax rules**.

In the latest avoidance spotlight 53, HMRC says that through this process, these schemes attempt to disguise an employee's earnings, which would ordinarily be subject to income tax and NICs. By using capital gains or dividends that attract other tax reliefs, the employer company attempts to avoid its tax liabilities as well.

It warns that these types of schemes are never approved by HMRC and employers and employees are likely to end up paying additional tax and interest and may be subject to penalties.

HMRC makes clear it will challenge these or similar arrangements. For transactions that took place after July 16 2013, HMRC will consider whether the general anti-abuse rule (GAAR) applies.

HMRC also says recent decisions confirm its

view that contrived arrangements involving employment income related loans are notifiable under the disclosure of tax avoidance schemes (DOTAS) legislation.

Scheme promoters should carefully consider the DOTAS rules to decide if the arrangements they are marketing should be disclosed to HMRC.

EOT NEWS

EO bears fruit

The first year of employee ownership has been credited with helping organic veg box firm Riverford achieve record sales and reduce staff turnover.



The Devon-based company reported the best sales year in its 30-year history, with a 10 percent uplift for the first half of the current financial year also meaning it will exceed its target of £70m turnover by 2020. Profit before tax and co-owner profit share is expected to be a record £3.7m.

The trend for plant-based diets has boosted Riverford sales, the company said, with its 100 percent organic seasonal veg boxes at the heart of its range, but it also believes it has benefited from a growing consumer mistrust of large corporations in traditional ownership.

Riverford founder Guy Singh-Watson explained: "Founder-entrepreneurs who sell their businesses to the highest bidder are typically smug to start with but, as the new owners destroy their creation, they suffer an identity crisis. By contrast, over our first year of employee ownership I have grown happier every day, watching Riverford grow by doing things better, with integrity, while generating

profit" Riverford said increased profits will be re-invested in the company, in areas such as mechanisation in the packhouse and on the farm, to help secure its viability for the future, as well as in staff pay, benefits and working conditions. The company also aims to double the profit share to co-owners from 10 to 20 percent.

A panel debate, 'How can alternative ownership of business be a force for good?' was held at Riverford's Field Kitchen restaurant where speakers Singh-Watson, and Dave Sproxton, co-founder of Aardman Animations, gave their perspective of employee ownership.

Canford Group to transfer to employee ownership

The Canford Group, formerly Canford Audio, is to transfer to an employee ownership trust later in 2019.



The Canford Group has manufactured audio equipment for broadcast and AV industries since the 1970s, with most of its employees based in north-east England.

The previous year saw significant growth for the Canford Group, with 2018 boasting a turnover of £15.75m for the company.

Iain Elliott, Canford Audio's founder and ceo, said: "I am 66 and the other shareholders are my age or older. When you have your own business you know you have to do something to make an exit. I didn't want to do a trade sale as heavens knows what would happen to my lifetime's work."

Manorview Group shares 10 percent of profits with team as part of employee retention drive

The Manorview Hotels & Leisure Group has created a new initiative to **share 10 percent of its pre-tax profits with staff** as part of a focus on employee retention.



The Manorview Group formed in 2007 and now boasts eight hotels, two pubs, two nightclubs, a luxury gym and fitness and leisure club.

The group has achieved a pre-tax profit of £554,440 for the year to March 31 2019, which has led to a total of £55,344 to be paid out across qualifying team members.

A total of 281 Manorview team members qualified to receive a payment which equated to approximately 1.3 percent of their Gross earnings for the year to March 31 2019.

AAR adopts EOT to empower staff

AAR has become staff-owned, with an employee ownership trust taking the majority share in the business, which has been valued at about £5m.



AAR was founded in 1975 by Lyndy Payne as the world's first pitch consultancy and was sold to executive chair Kerry Glazer, managing director Paul Phillips and managing partner Martin Jones in 1998.

Glazer said: "Establishing an EOT allows AAR to retain its independence and, therefore, its impartiality, integrity, company values and consistency in the way it operates as a business.

"It makes it easy for the existing owners to bring in a new generation of AAR leadership – heralded by our new chief executive officer, Victoria Fox – to incentivise and, over time, transition the business."

Fox, who started as chief executive in May, added: "Trust is critical in this industry and, in establishing an EOT, AAR is actively demonstrating its integrity as an organisation."

Manchester agency transfers to Employee Ownership Trust

In celebration of its 15-year anniversary, the owners of the Manchester-based digital marketing agency I-COM have **established an Employee Ownership Trust** and transferred a majority stake in the business to staff.



Managing director Mike Blackburn said: "The talents of our people are what make us successful as a business. Historically, we've always given back some of our profits by way of bonuses, but the EOT makes this a formal commitment to our people.

I-COM was advised in the transaction by the Manchester offices of law firm JMW and audit, tax and consulting firm RSM.

WORLD NEWS

An Esop is not a fable (hoary headline but not from Nazareth)

The Nazareth District Court has **ruled that dividend-only shares may qualify for the tax breaks** of an employee share ownership plan. The Court accepted that an Esop is “not a fable by Aesop or anyone else”, to the chagrin of the Israeli Tax Authority.

Esop plans approved under section 102 of the Income Tax Ordinance can both reduce Israeli tax and defer it until cash is realised if various conditions are met. Both shares and share options are permissible.

Spencer's to propose Esop in its first year of standalone ops in coming agm

Spencer's Retail, a chain of retail stores headquartered in West Bengal, will be proposing its shareholders to roll out an Esop.

A notice to the company's shareholders state that the maximum number of stock options available for grant under the Esop scheme will be 39,76,711 which represents five percent equity shares of the company having a face value of Rs5.

First Midwest Bank expands national lending capabilities to include Esop lending

First Midwest Bank announced it is expanding its specialty lending capabilities by hiring a team of bankers experienced in lending to **Esop-owned companies**. First Midwest's new Esop Finance Group will have a national lending platform and provide expertise in Esop-based ownership transition to its relationship bankers and customers.

Meanwhile in Newark, New Jersey, Mayor Ras Baraka has established a fund to finance conversions of local companies to employee

ownership. “Ultimately, we need to spread the access to capital,” he says. “People need to own the things that they produce. It helps push back against gentrification, against displacement.” City-backed employee ownership efforts are also underway in Madison, Wisconsin; New York City; Oakland, California; Philadelphia; and elsewhere. Read about the history of the Esop and America's bipartisan political support for employee ownership in this long read, **‘Fighting Capitalism with Capitalism’**.

India debating peer review of ratings by credit agencies

The Securities and Exchange Board of India will **consider implementing a peer review system** for credit rating agencies along the lines of the Institute of Chartered Accountants of India.

As per a **report** in the Hindu BusinessLine, the move coupled with some other changes such as the removal of Employee stock ownership plan for CRA employees and rotation of CRAs for rating assignments comes after multiple financial fallouts and downgrades.

International employee stock plans: 2019 Mid-Year Developments

Belgium: New tax withholding obligations

Effective March 1 2019, employers in Belgium are required to withhold and report wages when an equity award is considered taxable, regardless of whether the local entity is involved in the grant process.

Denmark: Amendments to Danish Stock Option Act & New Tax Reporting

The Danish government amended the Danish Stock Option Act, effective with respect to grants made on or after January 1 2019, to generally eliminate the requirements for

good leavers to retain equity awards after termination of employment and to receive additional awards after termination.

For stock option exercises and restricted stock units ("RSU") that vest in 2019, the Danish subsidiary will be required to report such events to the Danish tax authorities.

European Union: EU Prospectus Regulation

On July 21 2019, the EU Prospectus Regulation will fully come into effect and replace its predecessor, the EU Prospectus Directive. Like the Directive, the Regulation will require companies that grant equity awards and/or offer an employee stock purchase plan to their employees in the European Economic Area to register a securities prospectus in their home Member State with respect to such grants or offers unless an exemption applies.

France: PAYE withholding

Effective January 1 2019, Pay-As-You-Earn was implemented in France. As a result, income tax must now be processed through payroll and withheld by employers rather than paid by employees with their annual tax filings. The introduction of the PAYE system is a significant change from the previous system, where personal income tax was directly declared and paid by employees the next calendar tax year.

Singapore: Changes to payroll deduction rules

The Singapore Employment Act was recently amended, effective April 1 2019, so that certain provisions of the Act now apply to all employees, regardless of salary level.

EO companies steer safe

Three of the four employers recognised for **workplace safety** by MEMIC (Maine Employers' Mutual Insurance Company) at its annual meeting of policyholders are employee-owned through an Esop.

Steel-Pro, a custom manufacturer of stainless steel pressure vessels, biopharmaceutical equipment, vacuum chambers and storage tanks, provides a good illustration of how employee ownership improved safety culture.

Steel-Pro cfo Jeanne Rimm said, since the Esop was instituted, its 52 employees have taken more of a personal interest in the safety culture.

"From a business perspective, it was important to improve our safety record," she said.

The company didn't have a particularly good record before becoming an Esop business, she noted. Now, she said, "We all have this common bond of being an employee-owner. We all have the same goals."

German labour in the boardroom

A recent **paper** from Berkeley and MIT economists estimates the effects of a German mandate allocating a third of corporate board seats to workers (shared governance):

"One may be tempted to conclude that the absence of evidence of rent-extraction resulting from the inclusion of workers on corporate boards may be due to "responsible" or moderate unions in the German context. Perhaps, however, it is the very institution of shared governance and minority participation of workers in corporate boards that may facilitate cooperative labour relations or even tame labour. In particular, radical labour

representatives with demands perceived as excessive could always be outvoted by shareholders since the capital side generally still holds a majority of board seats. Thus, in order to exert influence, labour representatives may have to be moderates in order to successfully build coalitions with the shareholder representatives. As a consequence, shared governance may be one root cause of the cooperative labour relations in Germany.”

Collaboration to expand Chinese Esops

Tricor Group, Asia’s leading business expansion specialist, has formed a **strategic collaboration** with BOC International for the provision of Employee Share Ownership Plan solutions across China’s Greater Bay Area and Yangtze River Delta Economic Region.

With this collaboration, Tricor and BOCI jointly provide a one-stop integrated solution that enables clients to easily manage their employee stock incentive plans. This includes setting up a trust structure, appointing a trustee for maintaining share pools, overseeing all procedures, as well as monitoring Esop solutions, providing both employers and employees a seamless platform to manage their plans and entitlements.

Lennard Yong, Group ceo of Tricor, said: “By merging BOCI’s powerful share-trading platform with our trustee expertise, our clients and their staff will enjoy a seamless Esop experience that enables continued business growth. I’m confident this collaboration will be a success, and will mark a new milestone in our ongoing efforts to build our presence in mainland China.”

US polls reveal EO popularity

Ahead of the US elections a YouGov poll shows 66 percent support for requiring business owners to allow their workers a chance to buy the business if it is being sold or closed.

Fifty-five percent of the 1,132 registered voters surveyed support providing incentives and assistance to owners who transfer their businesses to their workers upon retirement and 58 percent support providing incentives and assistance to businesses that grant ownership stakes to their workers.

The **polls concur with previous research** by a team at Rutgers, in collaboration with the Sloan Foundation and Harvard economist Richard Freeman, who delved deeper into the data on what both workers and companies gain from profit sharing and how those benefits accrue over time.

NCEO launches new website

NCEO has launched the newly redesigned **NCEO.org**. Accessing and sharing practical resources and reliable information is now easier than ever.

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:

T:+44 (0)20 7239 4971

E: jwigzell@esopcentre.com



Esop Centre Ltd, 65 King’s Cross Road, London WC1X 9LW

+44 (0)20 7239 4971 | esop@esopcentre.com www.esopcentre.com