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it's our business

newspad of the Employee Share Ownership Centre

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In this issue

From the life president

The budget announcements will have given pleasure to Centre members who took part in the joint event on PISCES, which was arranged with Damian Carnell of Corpgro. The adoption of PISCES represents an important step forward for the sector.

There was disappointment on the absence of more positive measures to boost the share scheme world but this was unsurprising in the light of Labour's mixed thinking on the subject. Fortunately Lord Hendy of Richmond Hill is well placed to make the case as Transport Minister. His career took off when Paddington-based CentreWest buses was acquired by its management and employees.

It was unfortunate that the Chancellor chose to restrict esop trustees to the UK when trustees in the crown dependencies have played a key role in developing esops from the very start from Roadchef onwards. This reflects old thinking and there is still time to recognise the value of the superior jurisprudence in Jersey and Guernsey. It will certainly be a hot topic at our Guernsey seminar later this month.

Last but not least I welcome the additional resources which HMRC will receive. The Centre works closely with them through the joint bodies we have founded.

Malcolm Hurlston CBE

Autumn Budget surprises

Chancellor of the Exchequer Rachel Reeves presented the Autumn Budget to Parliament on October 30. Despite inheriting tight spending plans, the theme of the Labour budget was “invest, invest, invest” (as proclaimed by the Chancellor herself).

Alongside changes to fiscal rules and debt calculation, the Chancellor announced a headline -grabbing £40bn of tax increases. These included rises in both employer’s national insurance contributions and capital gains tax, as well as continuing the freeze on the inheritance tax threshold for a further two years.

Much to the disappointment of the equity incentives world, there was no mention of the Call for Evidence on the share plan framework, issued by the previous government in June 2023, despite its having been brought to her attention in recent months.

Centre member **Tapestry Compliance** summarised the main points:

Employer’s national insurance – increased rate, reduced threshold

Of particular relevance to UK employers, and in-turn the incentives industry, is the increase of employer’s NICs. Employers currently pay NICs on their employees’ earnings at a rate of 13.8 percent. From April 2025, that will be increased to 15 percent. In addition, the threshold at which businesses start paying NICs on earnings will be lowered from £9,100 to £5,000.

Capital gains tax – increased rates

Speculation surrounding an increase to CGT was correct, with the Chancellor announcing an increase in the lower rate of CGT from 10 percent to 18 percent, and the higher rate from 20 percent to 24 percent (with rates on residential property remaining unchanged). Other changes were announced, including to Business Asset Disposal Relief and Investors’ Relief. These changes have taken effect immediately.

Carried interest – increased rate

The Chancellor will increase CGT rates on carried interest to 32 percent (currently 28 percent) from April 2025 and, from April 2026, will deliver further reforms.

Inheritance tax changes – frozen thresholds, partial abolition of relief for AIM shares

The Chancellor will continue the freeze on inheritance tax thresholds (the first £325,000 of any estate can be inherited tax-free, rising to £500,000 if the estate includes a residence passed to direct descendants, and £1m when a tax free allowance is passed to a surviving spouse or civil partner).

More interestingly for the listed company share plans world was a partial abolition of IHT relief applied for shares in companies listed on the London Alternative Investment Market (AIM). Previously, AIM shares were not subject to IHT provided they were held for two or more years. The Chancellor announced a 50 percent IHT relief on AIM shares (and shares on equivalent markets). The impact of this is a 20 percent IHT rate (with IHT normally taxed at 40 percent) for shares in AIM companies.

Although inherited pension pots will become subject to IHT, certain of the other feared changes (such as reducing IHT gift relief) have not materialised.

Budget reactions...

Income tax and NICs – thawing thresholds

The final announcement within the tax section of the Chancellor's budget was to announce no extension of the freeze in income tax and NICs thresholds beyond the decisions of the previous government. From 2028/29, personal tax thresholds will be uprated in line with inflation (there is no indication of backdating the increase).

Also announced:

Consultation response – taxation of EOTs and EBTs

Published alongside the Budget was the government's Response to the July 18 2023 consultation on the Taxation of Employee Ownership Trusts (EOTs) and Employee Benefit Trusts (EBTs). The government response acknowledges the many respondents to the consultation, including the Esop Centre and Centre members. The changes introduced in this consultation response will form part of the Finance Bill 2024.

For EOTs, there has been no restriction on the relief given but there is clarification and tightening of various rules. This includes a requirement that trustees of an EOT must be UK resident (as a single body of persons) at the time of disposal to the EOT - a potentially unwelcome change for key providers in Guernsey and Jersey in particular. EBTs are a common vehicle used in the employee share plan process whether for satisfying awards, hedging, paying the nominal value on new issue shares, creating an internal market for shares and many more reasons. The government has announced a few minor changes to the rules and reliefs surrounding EBTs, including that the IHT exemption for shares held in an EBT will only apply if shares have been held for two years prior to settlement into the EBT.

PISCES – SD and SDRT exemption

Hidden in the raft of written publications supporting the Autumn Budget is a positive tax exemption for private companies looking for additional liquidity for their shares. The government has expressed a fresh commitment to delivering the Private Intermittent Securities and Capital Exchange System (PISCES), the upcoming innovative market for trading private company shares. This commitment is demonstrated with a new announcement that transactions carried out through PISCES will be exempt from Stamp Duty and Stamp Duty Reserve Tax. The exemption will be introduced under a similar timeline to that of the legislation establishing the PISCES regulatory framework.

The share plans industry, and the Centre in particular, is excited to see how PISCES could help encourage share ownership within private companies, providing employee shareholders liquidity events far earlier than might otherwise be the case. Companies looking to benefit from PISCES as part of their share plans should, review their award and plan documentation to ensure it is sufficiently flexible to allow exit events through the market.

Budget reactions...

National living wage – minor update for UK tax-qualified SIPs

An announcement that hit the headlines was the increase to the national living wage, with a hike of 6.7 percent from 2025. One small knock-on effect for the equity incentives world from this has been a very minor update for UK SIPs.

As part of the changes to the national minimum wage, the statement which must be made to participants in a UK SIP will be updated and this update is anticipated to take effect in 2025. Companies offering a partnership shares will need to ensure their partnership share agreement and other documents are up to date when this change takes effect.

The SIP & SAYE Call for Evidence-unanswered…

It has long been on the agenda of many within the employee share incentives industry, to increase the attractiveness of the UK's SIP and SAYE plans. While HM Treasury launched a Call for Evidence back in 2023 no formal reply was ever issued under the previous government.

One of the proposed reforms highlighted in last year's consultation, which had near unanimous support within the share plans industry, is a reduction in the SIP holding period for free and matching shares from five years to two years. However, despite the industry support, there is no mention of the Call for Evidence in announcements from the Chancellor and the Treasury.

Tapestry commented: *"Today is a significant day in many ways – the first Labour budget in 14 years and the first budget delivered by a woman in UK history. Many of the changes announced in the budget will have significant ramifications for UK businesses and workers. That said, this does not feel like a surprising budget. There were no significant rabbit out of the hat moments (perhaps to be expected given the emphasis on the inherited 'black hole'); however, in many cases the increases businesses (and individuals) will face were not as severe as expected.*

"Although share plans are rarely front and centre for the UK government, the incentives industry had hoped for measures or signs of progress in relation to the Call for Evidence on SIPs and SAYEs. The Call for Evidence could be used as a springboard to boost the effectiveness of SAYE and SIPs and in-turn help improve productivity, performance and competitiveness within UK businesses – we will continue to support these efforts.

"We are, however, very pleased to see PISCES remaining a key part of the government's agenda for growth. The exemption from Stamp Duty and Stamp Duty Reserve Tax should help increase the attractiveness of what we hope will be an already attractive proposition for private companies (particularly those offering employee share plans)."

Sarah Anderson of **RM2 Partnership** posted *"Right, Budget's done, which is a huge relief because at least now everyone's clear about what's happening, whether or not they agree with the outcome. And now it's time to read the small print ... Initial thoughts though: great that the government's responded to the EOT consultation, and looks like they've largely accepted the recommendations made by respondents. Thanks, government. But nothing on the all-employee tax advantaged share plans consultation, which is really disappointing*."

Centre letter to the Treasury

The Centre wrote to the Chancellor, ahead of the autumn budget, emphasising the link between employee share ownership and fiscal policy.

The letter stated that the government has rightly put an emphasis on the need for growth and noted its successful International Investment Summit to drive expansion of the economy.

The Centre added "It is important to recognise the role that employee share ownership has in the engagement, motivation and retention of workers to produce growing enterprises. (Employee share ownership also prompts companies to promote financial literacy amongst employees, which helps build inclusive society improving economic participation and financial decisions-making for individuals and families.)"

Putting the case for *Employee Share Plans' importance to growth,* it stated, "According to HMRC's latest research, the number of companies operating employee share ownership plans increased by seven percent in 2023, reaching 19,990[1]. This growing group of companies represents a major contribution to the economy and the Exchequer. A second HMRC report[2] showed that companies found them effective in retaining key staff (84 percent) and improving staff morale (85 percent). Recruitment of higher-quality employees and key workers was positively influenced by such schemes, with over half of the companies in the study reporting benefits. This is crucial for business growth as skilled staff are needed to scale businesses and expand. In addition, econometric analysis showed that firms using share plans experienced a reduction in hard-to-fill vacancies, directly aiding recruitment, a key driver of growth."

The Esop Centre recommended that:

1. Any change in Capital Gains Tax or other tax change, should be rebalanced to make sure that it does not adversely impact the benefits of employee share plans.
2. The government should demonstrate a commitment to share plans when establishing GB Energy and The National Wealth Fund, for the main vehicles and for their project subsidiary companies, by ensuring that employees enjoy the benefits of direct share ownership, rather than remote ownership via a trust.

On a philosophical note, much share scheme tax legislation assumes abuse. This has been an impediment to the creation of an entrepreneurial culture that benefits workers in wealth creation. Instead, we suggested that the UK share schemes tax framework should be broadly permissive, coupled with heavy penalties where the available permission is clearly abused.

The Centre has arranged to meet the Chancellor's officials to discuss further.

[1]Employee Share Schemes statistics – commentary HMRC (2024)
[2]The Evaluation of the Enterprise Management Incentives (EMI) – HMRC (2018)

What 'Monzo millionaires' can teach us about share options

According to *the FT*, thousands of staff members at Monzo, the digital bank famed for its coral-coloured bank cards, could soon be in the pink.

Two big investors in the fast-growing fintech are set to expand their stakes by buying stock from Monzo employees who were awarded share options as part of their overall pay package.

The bank isn't listed on the stock market (yet) but the price the investors are paying is estimated to create around 15 Monzo millionaires based on the number of share options some staff are holding.

Twenty years ago, options were a perk that tended to be offered to the C-suite and board of directors. It is now common for staff to be offered some kind of ownership stake, as companies recognise the power of incentivising the workforce to increase the value of a business.

However, it pays to understand how options work and the questions you should ask in job interviews if they form part of your overall package.

Pakistan's first Esop to empower employees in climate action

WeatherWalay, Pakistan's largest private weather forecasting company, has marked its third anniversary by introducing an Esop for fifteen key employees, breaking new ground in the country's climate tech sector. The initiative, which features a three-year vesting period, aims to transform staff into stakeholders while addressing the challenge of retaining specialised talent in Pakistan's nascent climate technology industry. The company currently serves over 20m subscribers with hyper-local weather information in six languages, operating a network of 300 automated weather stations across 80 percent of Pakistan's districts. The announcement comes as Pakistan grapples with growing climate challenges.

The State Bank of Pakistan has warned that climate change could cost the nation up to 20 percent of its GDP by 2050. WeatherWalay has positioned itself at the forefront of meeting these challenges, recently improving forecast accuracy by 40 percent through its multinumerical model and engaging in partnerships with global tech companies and public sector entities. The company is pioneering the country's first large-scale crop parametric insurance pilot, collaborating with organisations including the Asian Development Bank and insurance providers to enhance climate resilience in agriculture.

Last chance for Guernsey conference registration

Don't miss this final opportunity to join the Centre's annual conference on employee share schemes and trustees. Held in conjunction with STEP Guernsey, it looks to emulate the success of 2023. Expect alarms following the declared intention of the UK Chancellor to restrict EOTs to UK trustees.

The seminar will be on the morning of **Friday November 8** at the Old Government House Hotel, St Peter Port. To reserve your place, email: events@esopcentre.com

Under the heading A *Change in Continuity,* our expert speakers will address the key issues currently facing trustees and employee share scheme professionals, with a view to how the new Labour government in the UK will affect Guernsey and other Channel Islands.

Delegates will learn about liquidity events for share schemes; demystifying share valuation for employee share ownership; the impacts of HMRC's increasing use of Artificial Intelligence; the Employee Ownership Trust 10 years on; along with legal and tax updates.

Speakers include Cees Vermaas, ceo of The International Stock Exchange; tax consultant Paul Malin; share schemes consultant David Craddock; Jaspal Pachu, partner in the corporate tax team at CMS; and barrister David Pett of Temple Tax Chambers.

The programme is drafted to provide relevant technical information, which we trust will be acceptable as counting towards Continuing Professional Development or Continuing Competence.

Presentations will run from 09:00 to 13:15 (approx.), followed by a networking lunch for delegates and speakers.

Tickets:

Esop Centre/STEP members: £420/each

Non-members: £538/each

Multi-booking discount: **50% off** cost of ticket for your third delegate.

To book, email events@esopcentre.com

The employee voice – webinar Nov 19

Employee share schemes expert David Craddock will consider the empowerment of the employee voice through employee participation. His talk will include a case history and the principles developed to promote wider involvement in the company. David will cover employee representation, workers' groups and the voting rights of employee shareholders.

The 25-minute talk will be followed by a Q&A session, so have your questions and comments ready for David on Tuesday November 19 at 15:00 (GMT). Register now to take part in the webinar.

Report: PISCES and employee share plans conference

The timely Esop Centre/CORPGRO event on September 25, hosted by PwC at its More London offices, was the first conference on PISCES - the Private Intermittent Securities and Capital Exchange System.

Centre chairman **Robert Pay** welcomed delegates with a brief overview of the topic. He welcomed the PISCES initiative, believing it could help regularise, and therefore facilitate, the adoption and administration of share schemes in private companies. He added that he would be looking for fatal flaws or major impediments to uptake from the professionals speaking.

PISCES: The aims and aspirations

Tom Simmons, PISCES lead at the London Stock Exchange Group, explained why the PISCES framework was needed. Making the shift between private and public markets is becoming ever more difficult, which strengthens the need for a crossover market regulation framework.

PISCES is not intended for mass market retail: it is a framework for professional and sophisticated investors, employees and existing shareholders as needed.

PISCES and share plans and incentives

Damian Carnell, founder ceo of CORPGRO, followed a brief history of share plans with a look at executive compensation and PISCES. On LTIPs, he said that companies need a Value Creation Plan. He underlined that some employees do not understand the value of equity. PISCES will address the lack of liquidity in share plans.

PISCES: The legal landscape and challenges

In her presentation, Clifford Chance director **Juliette Graham** covered regulatory issues with the potential impact on employee incentive plans, legal documentation and disclosure. As an overarching point, Juliette commented that the PISCES consultation paper has been drafted with employee shareholders in mind and they are referred to throughout the paper. But, the consultation paper does not explicitly reference employee award/option holders, and the practical issues that trading on the platform could present for them.

She described PISCES' impact on the exit-only incentive plans, which are typical in private companies and examined scenarios where awards were to vest or options exercised with the underlying shares acquired before an auction; and the possible implications if the shares were not purchased in the auction. Juliette highlighted practical difficulties with the proposed disclosure requirements, as well as broader regulatory issues which should be worked through such as closed periods, insider dealing, prospectus regulation and financial promotions.

PISCES and share valuation, tax & accounting

PwC's **Rebecca Clayton, Jonny Rodwell** and **Andrew Nealey** emphasised the importance of pricing. They explained that by creating a liquidity event using PISCES you could bridge between a full valuation of a company and an individual holding being traded on the platform.

They covered general valuation and pricing considerations, preparing for an auction, strategic decision making, control over cash flows and liquidity, and the key areas of valuation judgement.

Report: PISCES and employee share plans conference

PISCES share plan administration

Vestd ceo **Ifty Nasir** began his talk on PISCES and share plan administration by looking at liquidity events.

In early-stage companies – funded by founders, then friends and family, early angels and option holders - looking for further liquidity, there is currently a reduced appetite for IPOs because they are complex, involve a 'long journey' and are high risk. If not launching an IPO, typically the only other option to raise equity is through venture capital or private equity. PISCES will offer a new alternative to exit and diversify investors, including employees.

The presentations were followed by plenary panel on "*Making a world first work*".

The panel comprised Rebecca Clayton, PwC; Tom Simmons, LSE; Stuart Bailey, Wealth at Work; and Ben Macnaghten, Valuation Consulting and was moderated by Damian Carnell of Corpgro. They took questions on the potential size of the market; obstacles that might delay 'making it real'; and how difficult it might be to run a broad-based discretionary plan and get the details across to employees? Other topics raised were valuation, marketing, communications, risk, international scope, insurance, asset classes, trusts and tax.

Summing up, Robert Pay said "My key takeaway is that PISCES has been given a vote of confidence by share scheme and corporate finance professionals here today. It can help regularise share sales in private companies which will be helpful to growing companies, whether or not they move to a public market. There are no fatal flaws with PISCES and any issues flushed out can be resolved with ease and without great expense. The likelihood is that PISCES uptake will be driven by advisers – that is a challenge to which they are equal."

Read the full report. It will be of special interest in the light of the Budget.

Annual all-employee share plan awards

We are accepting submissions for the 2024 *newspad* all-employee share plan awards.

The awards recognise the achievements of companies which offer employee share plans and hold up best practice models for other companies to follow.

If your company or client made a notable contribution to employee share ownership, issued an inspirational share plan, or showed excellence in its communication and presentation; been creative in using share plans to overcome significant changes or challenging situations, increasing participation or using technology; or maybe its chairman, ceo, or share plan team leader has upped the game with enthusiasm for employee share ownership, then why not tell the world about it?

Companies can nominate themselves or advisers can make submissions on behalf of clients. Entrants can apply for awards in more than one category. Submitting nominations is free and simple. Required information kept to a minimum. Clarity matters more than length. The deadline for all nominations **is 17:00 on Tuesday December 17 2024**.

The awards present an opportunity to celebrate your company or clients' achievements.

The award categories this year are:

1. **Best all-employee share plan**
2. **Best share plan communications**
3. **Best use of technology, AI or behavioural science**
4. **Best share plan response to significant changes or challenging situations**

Category descriptions and rules of entry can be viewed on the Awards 2024 webpage.

Application process

To submit an application for the newspad all-employee share plan awards, please complete both of the following stages:

⇒ **Online application form** - complete all sections of the online form, providing as much detail as possible. (Alternatively, entries can be made by one or two explanatory documents)

⇒ **Supporting documentation** - where appropriate, please back up your application with supporting documentation. Either upload the files at the end of the form, or email them to: esop@esopcentre.com.

The winners will be decided by two impartial judges, experts in the use of employee equities, plus Malcolm Hurlston CBE, founder of the Esop Centre. **The finalists will be announced in *newspad* and award certificates will be presented during the Centre's Employee Share Plans Symposium 2025.**

If you have any questions, please contact us at esop@esopcentre.com or call +44 (0)20 7562 0586.

Budget likely to hurt working people and do little for economic growth

In a reaction to the Budget, released on October 30, IEA editorial and research fellow Professor Len Shackleton said: "Labour has, as expected, substantially upped the minimum wage rates. This will affect the pay, directly or indirectly, of well over three million workers. This will add to the other costs imposed on employers either explicitly in the budget or implicitly as a result of new work rights. While it may not lead immediately to job losses, the extra pressure on smaller employers in particular is likely to send some to the wall in the medium term.

"The quite extraordinary increase in pay – 16 percent – for 18-20 year olds is part of the transition towards paying all adult workers the same minimum wage. It will make younger workers less attractive to employers and may well spark a rise in the youth unemployment rate as employers prefer older and more experienced recruits. It will certainly make considerably more difficult the task of bringing the large number of inactive young people into employment.

"In the longer term, basing pay not on the productivity which workers bring to the employer but on what bureaucrats consider to be their needs will lead employers to automate many jobs, to contract work out to the self-employed, or to switch production to other countries."

Brits and tax hikes

Most Brits are worried about potential tax hikes, yet are divided on tax strategy. Investment platform *AJ Bell* found two thirds of the 2,054 UK adults it surveyed in October expressed concerns around their personal finances if taxes rose. Thirty percent were in favour of a reduction in overall taxes, while 28 percent would accept an increase. More than half (54 percent) supported increasing the higher rate of income tax, and 65 percent thought those in the additional rate tax bracket should face even higher income tax, *City A.M* reported.

CEOs praise Labour's plans after investment summit - but there's a caveat

Labour's investment summit has won cautious endorsement from international business leaders, with ceos of major corporations including BlackRock and Eli Lilly expressing support for the party's growth agenda. The pre-Budget event, which Labour claims secured £60bn in investment pledges, marked a concerted effort to reshape the party's image with business, featuring announcements of an Industrial Strategy, a National Wealth Fund, and reforms to the British Business Bank. The summit's message was complicated by the DP World episode, where a £1bn investment was briefly withdrawn before being recommitted.

However, business leaders' support comes with clear conditions attached. While BlackRock's Larry Fink and others praised Labour's reform plans, they emphasised that investment depends on successful delivery, particularly in areas such as healthcare access and planning. The summit highlighted the delicate balance Labour must strike between pursuing worker-friendly policies, such as the recently announced workers' rights reforms, and maintaining an attractive environment for international investment. As Fink noted, while capital will flow towards opportunity, it can retreat just as quickly when faced with uncertainty.

UK CORNER

Post Office exploring employee-ownership model

The UK government is considering transforming the Post Office into an employee-owned business, with the Department for Business and Trade commissioning BCG to examine potential routes for implementation. The proposed mutualisation model would create an employee ownership trust coming amid growing adoption of such schemes, with new EOTs increasing by 2,750 percent over the past five years (see EO News article on the growth of EOTs in this issue).

The exploration of employee ownership comes as the Post Office grapples with fallout from the Horizon IT scandal and recent leadership turmoil, including the departure of ceo Nick Read following bullying allegations. While experts suggest EOTs can boost employee engagement and retention, the Communication Workers Union has warned that such a model would only succeed with a complete overhaul of the Post Office's governance structure. The union argues that the organisation's current top-down management approach has contributed to its ongoing crisis and needs reform before any ownership changes are considered.

London retains world title for green finance

London has kept its title as the world's top centre for green finance for a third year, despite slipping by 14 points to a total rating of 634. The Z/Yen Global Green Finance Index, which ranks 97 locations, showed that the rating of every centre in the top 20 fell over the half year, while just six locations gained points. London was flanked by Zurich, Singapore and Geneva, *CityA.M* reported. New York, which ranked second place until April, has fallen to fifth place after dropping 16 points to 626.

The Global Green Finance Index 14

Africa adopts global norms for executive pay

African companies are increasingly aligning their executive compensation practices with global standards, according to research from law firm Bowmans spanning six key jurisdictions across the continent. The study reveals a growing adoption of sophisticated remuneration tools, including executive share plans, employee stock ownership plans, and malus and clawback provisions. Environmental, social and governance (ESG) metrics are being increasingly integrated into executive reward packages, as African companies seek to attract international investors while maintaining their ability to recruit top talent.

However, significant disparities remain in remuneration disclosure and reporting practices across the region. While Kenya and South Africa maintain high standards of transparency owing to stricter regulatory requirements, companies in Mauritius, Nigeria, Tanzania, and Zambia typically limit their disclosures to guaranteed packages. The research suggests that improving remuneration governance and reporting standards across the continent would enhance investor confidence in African companies' overall governance and sustainability practices. There is a parallel trend toward incorporating non-financial benefits such as flexible working arrangements and wellness programmes.

Principles of Remuneration 2025

On October 8 the Investment Association published its updated Principles of Remuneration. The guidance includes:

⇒ Principles for remuneration committees; philosophy and structure; and levels of remuneration.

⇒ Remuneration committee guidance on shareholder consultation; pay levels; base pay; pensions; benefits; annual bonus; and long term incentives where specific issues include: performance share plans; restricted share plans; hybrid LTIPs; VCPs; and LTIP technical issues.

⇒ Recruitment of directors and alignment; special awards; non-executive director fees and shareholding

Boom in firms moving to employee ownership trust model

The number of UK businesses transitioning to employee ownership trusts has increased significantly, with a 27 percent rise over the past year. According to a report by accountants Lubbock Fine, 542 businesses had adopted EOTs by the end of 2023, up from 428 in the previous year. This represents a dramatic 2,750 percent increase since 2018, when only 19 businesses used the model.

Introduced by the Conservative/LibDem government in 2014, EOTs allow business owners to sell their companies to employees through a trust. The model is attractive to entrepreneurs seeking to preserve company culture and reward loyal staff while benefiting from tax advantages. EOTs offer owners the opportunity to sell shares at full market value without incurring income, capital gains, or inheritance tax. The changes put forward in the Budget could make EOTs an even more appealing option for business owners looking to exit while keeping their companies in trusted hands. However the government may need to rethink the plan to exclude the crown dependencies whose efficicency and superior jurisprudence have been a key factor.

EOT round-up

- Pub, The Rising Sun in Fulwood and brewer Abbeydale Brewery
- Wholefood producer Alara Wholefoods
- Manufacturer and supplier of power tool accessories Armeg Ltd
- Financial planning firm Boosst
- Commercial glazing specialist Britplas
- Insulation, heating and energy services provider Complete Remedial Solutions
- Qualitative fieldwork specialist Criteria Fieldwork
- Accessible print producer Gwasg Pia
- Online property conveyancing firm Home Legal Direct
- Demolition specialist John F Hunt
- Recruitment firm Joss Search
- Energy management systems and services provider Kendra Energy Solutions
- Deli restaurant and bar Lunya
- Construction firm Meldrum Construction Services Group
- Communication company Orchard Media
- Solicitors practice Progression Solicitors
- Manufacturer, wholesaler and retailer of dancewear Roch Valley
- Creative agency Rock Kitchen Harris
- Finance recruitment specialist Sharp Consultancy

Europe

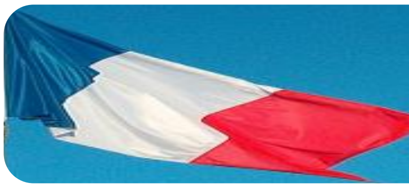
Not Optional campaign sees European startups catch up on Eso

Not Optional launched in 2019 with the support of more than 500 ceos and founders across the continent who, in an open letter, called on legislators "to fix the patchy, inconsistent, and often punitive rules that govern employee ownership — the practice of giving staff options to acquire a slice of the company they're working for."

Led by Index Ventures, Not Optional's ranking compares stock option treatment in 20 European countries and four countries outside Europe: the US, Canada, Israel, and Australia.

Talent/reward strategist Isaiah Baril-Dore said "In our view, we're halfway there. Over the last five years, 11 countries — UK, Portugal, France, Germany, Austria, Czechia, Spain, Latvia, Lithuania and Greece — have made positive changes to their equity programmes, seven of which are now at or equal to how we think about the US in terms of rating their plan."

More than €5bn has been transferred to employees since 2019. With European competitiveness in the spotlight following the Draghi Report, Europe's three largest economies—Germany, France and the UK — have reformed stock option policies to match or exceed those of the US.



France

Renault Group's Esop 2024: strong growth momentum

Renault Group has reported strong uptake in its third annual employee share ownership scheme, with participation rates rising to 43 percent from 36 percent in 2023. The Renaulution Shareplan will transfer approximately 1.88 million shares to employees, comprising seven free shares for over 93,000 eligible workers and additional shares available for purchase at a 30 percent discount. Following the scheme's completion, employees will hold around 5.74 percent of Renault SA's capital, moving the company closer to its target of 10 percent employee ownership.

The campaign, which ran from September 18 to October 2, saw nearly 46,000 employees invest an average of €679 each, totalling over €31.1m in subscriptions. Ceo Luca de Meo highlighted the scheme as part of Renault's tradition as a "social laboratory," positioning it as one of the most progressive employee ownership programmes across all sectors. The initiative, available across 30 countries for free shares and 24 countries for discounted purchases, reflects the company's commitment to involving employees in its strategic transformation.

India

Indian startup employees cash out $1.7bn through Esops since 2020

Indian startups have seen a significant increase in Esop buybacks since 2020, with over a hundred companies implementing programmes worth approximately $1.7bn. This trend reflects a growing commitment to rewarding talent and boosting employee morale in the startup ecosystem.

The scale of Esop buybacks has grown dramatically year-on-year, from $50m across 11 startups in 2020 to $802m from 14 startups in 2023. Leading companies in this trend include Flipkart, Razorpay, Swiggy, Whatfix and BrowserStack, with the most active sectors being e-commerce, fintech, SaaS, edtech, and logistics. Notably, 28 unicorns have participated, demonstrating a commitment to employee financial well-being even among highly successful startups. However, recent budget proposals suggesting treating share buybacks as dividend income may impact Esop strategies in future.

Zomato unveils new Esop worth $39m

Zomato, the Indian food tech giant, has announced a new Esop valued at approximately $39.5m (₹328 crore) under its Foodie Bay Employee Stock Option Plan 2014. The company's board has approved the grant of nearly 12 million Esop options. This move comes just three months after Zomato received shareholder approval for a separate Esop plan worth $458m, bringing the total value of its Esops to $796m. The company's latest financial report shows strong growth, with revenues of ₹4,206 crore for the first quarter of the current fiscal year, representing an 18.1 percent quarter-on-quarter increase. Zomato's market capitalisation stands at around $29bn. However, the company is also experiencing significant leadership changes, with several co-founders, including chief people officer Akriti Chopra, recently departing. Meanwhile, Zomato's competitor Swiggy is preparing for its IPO, and other public companies in the sector are also expanding their Esop pools.

IPO-bound Swiggy grants Esops worth $271m to founders & top execs

Swiggy, the Indian food and grocery delivery service preparing for its initial public offering, has granted Esop worth $271m to its founders and top executives under a new compensation plan introduced in April. The largest share, nearly $200m, was awarded to founder and ceo Sriharsha Majety, potentially increasing his ownership stake by 2.2-2.5 percent on top of his existing 6.23 percent stake. The remaining stock options were distributed among other co-founders and key executives, including newly appointed Swiggy Instamart ceo Amitesh Jha, who received options worth $13.3m. The Esop grants, which have vesting periods of one to eight years, are part of a common practice among consumer internet firms preparing for IPOs to incentivise management and compensate for stake dilution from multiple funding rounds. Swiggy filed its draft Red Herring Prospectus on September 26, aiming to raise ₹3,750 crore through a fresh issue of shares to fund expansion of its quick commerce segment and infrastructure improvements.

South Africa

Employee ownership structure can help pave way for M&A approval

In an opinion piece for *Business Live*, Tiisetso Masimula wrote that mergers & acquisitions involving multinational companies in certain industries often require the approval of the Competition Commission. Companies can use employee ownership to address the commission's public interest considerations by providing employees a financial stake in the company, creating a sense of ownership and engagement, and promoting a fairer distribution of wealth.

Employee ownership can play an important role. In recent examples companies have used employee ownership to meet the Commission's public interest considerations. These include PepsiCo, which in 2019 acquired SA food and beverage company Pioneer Foods as part of its expansion into Africa. As a condition of the merger the Competition Commission required that a portion of the merged entity be owned by a broad-based BEE consortium and that Pioneer Foods implement an Esop. The Esop enabled Pioneer Foods employees to acquire an ownership stake in the merged entity, in that way promoting greater economic empowerment and inclusivity among historically disadvantaged groups.

This year Woolworths introduced a five percent share ownership scheme to secure approval of its acquisition of Absolute Pets. The Competition Tribunal approved the transaction with these conditions on April 2. Similarly, the Vitol Group was required to introduce an Esop that begins at five percent and increases to nine percent (over a seven-year period) for the acquisition of Engen Petroleum.

South Korea

Legality concerns over proposed transfer of treasury shares to Esop

According to *Business Korea*, Korea Zinc called an emergency board meeting for October 30 to discuss measures to defend its management rights amidst an ongoing dispute. The company is expected to decide to transfer approximately 1.4 percent of its treasury shares to the Employee Stock Ownership Plan to revive voting rights, a move that has sparked controversy and warnings of potential legal repercussions.

In May, Korea Zinc entered into a trust contract to acquire 289,703 treasury shares, representing about 1.4 percent of the company. The trust period for these shares ends on November 8. Treasury shares, which do not have voting rights while held by the company, could see their voting rights revived if transferred to the Esop. This strategic move is seen as an effort by chairman Choi Yoon-beom to bolster his voting power in the face of competition from the MBK Partners and Young Poong alliance.

According to the investment banking industry, the board meeting was urgently convened, with directors only informed that the agenda pertained to the management rights dispute.

Choi's plan involves transferring the shares to the Esop either for free or at a price lower than the market value to secure voting rights. This has drawn strong criticism from MBK Partners, who have labelled the move as a breach of fiduciary duty.

Uzbekistan

Esops set to transform state-linked companies in Uzbekistan

Uzbekistan is implementing Esops for companies with over 50 percent state ownership, following regulations approved by the National Agency of Prospective Projects. The initiative, confirmed by the Ministry of Justice on October 8, aims to encourage employee ownership in joint-stock companies by allowing workers to acquire shares or stock packages through option agreements. The new policy, inspired by practices in countries such as the United States and the United Kingdom, and also neighbouring Kazakhstan, requires approval at general shareholders' meetings. Employees will be able to purchase pre-acquired shares from the secondary market, with option agreements also available as incentives. The move is expected to align employee interests with company performance and foster long-term employment relationships. In line with a presidential decree from September 2023, funds used for share purchases up to one month's salary will be exempt from personal income tax, further promoting participation in the capital market.

USA

Why a PE executive wants more businesses to adopt Esops

Pete Stavros, co-head of global private equity at Centre member KKR, is leading a coalition advocating legislative reforms to facilitate Esops in larger companies. The group, called *Expanding Esops*, argues that these plans can boost wealth generation and reduce employee turnover. However, current tax incentives and potential litigation risks deter many larger businesses from adopting Esops.

The coalition aims to promote "partial Esops," where workers own part of the business rather than 100 percent, which is more common in smaller firms. They propose changing tax incentives and establishing guidelines to protect workers and mitigate litigation risks. While private equity firms like KKR may benefit from investing in Esops, HR experts emphasise that successful implementation requires complementary practices. These include maintaining competitive wages, ensuring job security, offering short-term incentives like profit-sharing and encouraging employee empowerment to foster a sense of shared ownership.

USA

Labour department asks high court to skip Esop lawyer fee suit

The US Department of Labor has urged the Supreme Court to decline reviewing a case concerning attorney fee payments following its unsuccessful lawsuit over an ESOP transaction. The case stems from a failed labour department lawsuit against Brian Bowers and Dexter Kubota, who were accused of selling their architectural firm's stock to the company's Esop at an inflated price of $40m. Despite losing the case after a week-long trial, the Department argues that the Ninth Circuit's decision to deny attorney fees does not warrant Supreme Court intervention. The dispute centres on the interpretation of the Equal Access to Justice Act (EAJA), which aims to prevent abusive government litigation. While the defendants, supported by the ESOP Association and American Society of Appraisers, argue that circuit courts are divided on the meaning of "substantially justified" under the EAJA, the Department contends that the case represents a routine application of established law. The Department maintains that although its lawsuit was described as "shoddy" by the appeals court, its litigation position was sufficiently justified to avoid fee liability, and the case presents no novel legal questions requiring Supreme Court review.

Importance of employee ownership in the US

Last month *what.tax* suggested that 401(k) is a critical tool for building wealth and navigating the tax code and how understanding the 401(k) could set employees up for retirement and teach how to optimise tax strategy.

US Esops are often linked to the 401(k), which is more than a retirement account - it is a strategic tool that can significantly reduce the tax burden today, and more importantly, help navigate how future tax laws might affect wealth.