

# European ESOP

## The model, the pilots, the law

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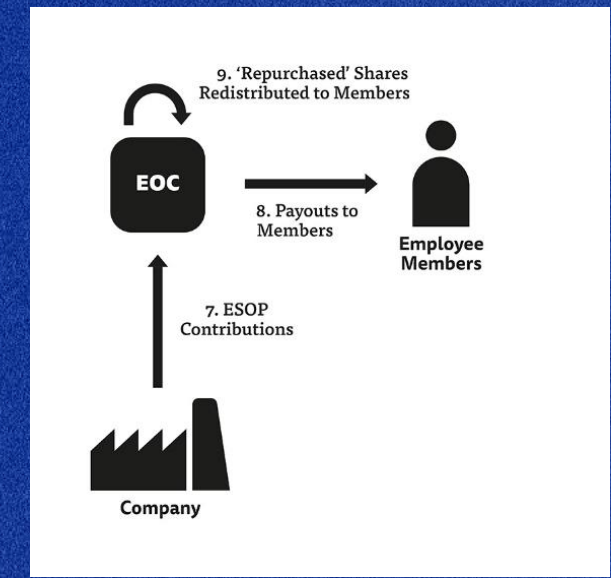
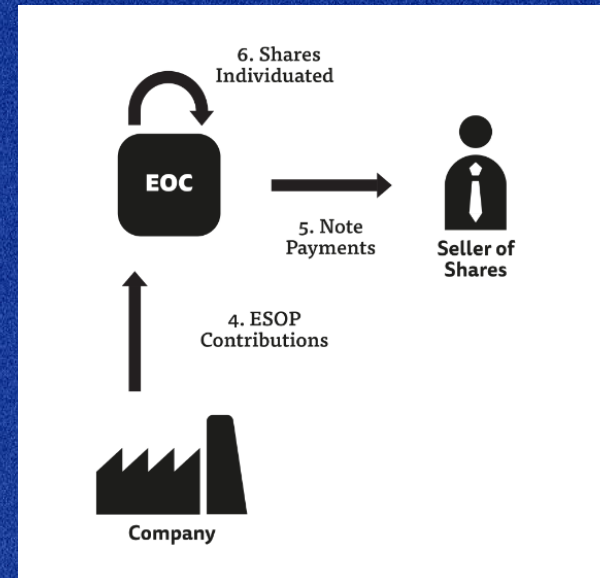
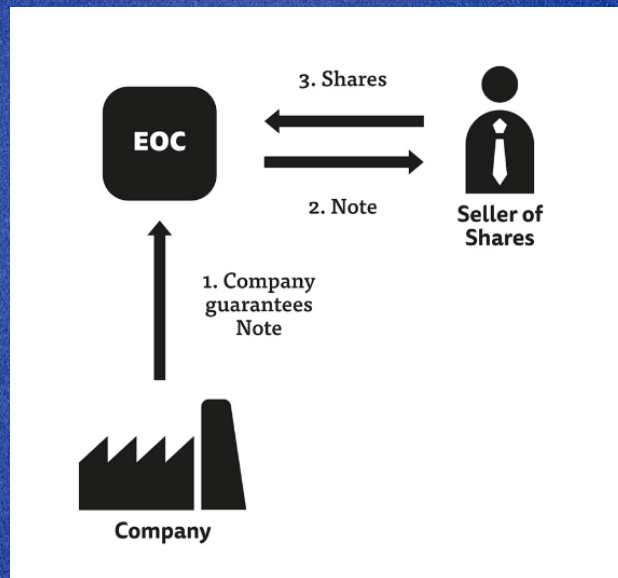




# European ESOP

**European ESOP** is taking best practice and improving the structure to ensure a **standardized model** that can be **replicated** around European countries.

## How does it work?





# Slovenian ESOP

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## National adaption of the European ESOP

- Implemented in Slovenian businesses, proof of concept
- Biggest company 110 employees, smallest 9 employees

## Lessons learnt:

- Low set up costs and low transaction costs (also suitable for small companies below 10 employees)
- Mostly credited by sellers (one case financed through a commercial loan)
- Importance of education (trainings on ownership culture, financial literacy etc.)



# Carrots and sticks of ESOP legislation

## Carrots (incentives):

- Tax deductions on capital gains tax for sellers
- Tax deductions on corporate income tax for financing ESOP buyout
- ESOP payouts to employees taxed as dividend payments

## Sticks (regulation):

- At least **85%** of employees members of ESOP cooperative
- Profit/capital gain distribution criteria limited to within-firm income differences
- **%** of EBITDA that can be transfer to reduce corporate income tax limited to **%** of ownership on ESOP
- Tax clawback clause (disincentivizing ESOP sellouts)



# Tapping the potential

## Untapped potential in addressing the succession challenge in the SME sector?

- A recent report from the UK (**20% PE, 19% ESOP buyouts**), in the US **14,7 million workers** in ESOP firms (mostly due to succession)
- EU - **600.000 SMEs** addressing succession challenge annually (**2 million jobs**), third of the cases threatened.

## The role of supportive infrastructure:

- Communication and advocacy (information is needed)
- Favourable tax treatment and regulatory certainty (EU + national policy)
- Financing for scale (ESOP fund in Slovenia)
- Technical assistance (legal, organizational, and other expertise)



# Thank you!

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