

Ireland urged to follow UK in encouraging employee ownership

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Marie Flynn

Ireland should follow the UK in introducing tax advantages for employee-owned companies, a business group has said.

The Irish ProShare Association (IPSA) made the call after digital marketing agency Wolfgang Digital became the first Irish-owned company to become employee-owned using an employee ownership trust (EOT), the model popularised by British retailer John Lewis.

The newly-formed Wolfgang Talent Trust has acquired 25 per cent of the shares in the company and will use a portion of company profits every year to finance another share purchase by the trust.

All employees who have been with Wolfgang Digital for longer than 12 months are partners in the trust, which is expected to become the majority owner of the company within 10 years.

Commenting on the news, IPSA chair Marie Flynn said: "We're delighted that Wolfgang Digital has made the pioneering decision to become employee-owned using an employee ownership trust.

"EOTs have proven an incredibly successful method of encouraging companies to become employee-owned in countries such as the UK, US, Australia, and Canada. They could also be tremendously popular in Ireland, particularly as a business succession solution.

"Instead of a trade sale or a business closing, it is sold to a trust for the benefit of its employees. This benefits everyone — the selling owner or shareholders, the business, its employees, the community in which the business is based, and the wider economy.

"For that to happen the government needs to provide guidance on the financing of EOTs and pass legislation to remove tax obstacles that make them overly complicated and expensive for both the seller and employees of the company."

There are more than 1,600 employee-owned companies in the UK, almost all created over the last 10 years since EOT legislation was introduced.

EOTs in the UK benefit from tax advantages including a capital gains tax (CGT) exemption on gains made by individual shareholders when a controlling interest in a company is sold to an EOT, inheritance tax exemption, and an income tax exemption of £3,600 per individual per tax year on certain bonuses issued to all employees.

Ms Flynn said: "Tax relief for EOTs in the UK and other countries provides a substantial benefit for all employees.

"It not only provides another source of remuneration in addition to wages, but it also helps create a culture of ownership and collective responsibility for the company's performance. Studies in the UK and US have shown that employee-owned businesses perform better.

"In Ireland, EOTs offer no tax incentives for business owners or employees and in fact the tax framework works as a significant disincentive due to the penal way in which the Irish tax legislation works, which means that often higher tax rates are paid by sellers/employees as a result.

"That needs to change if the government wants to pave the way for a vibrant new era of employee-owned businesses in Ireland."