EQUITY INCENTIVES LIMITED

7 February 2003

press release

Employee share ownership under threat

Employee share ownership in the UK has been welcomed and encouraged by successive governments as a way of rewarding and incentivising employees in all types of business. Only a few years ago, Gordon Brown prefaced his 1998 Budget with these words: "I want, through targeted tax reform, to reward long term commitment by employees … we will make it easier for all employees - and not just a few - to become stakeholders in their company … Our policy is pro-small business, pro-share ownership." Since then hundreds of companies, private and quoted, have embraced the concept of wider share ownership through government approved plans such as Enterprise Management Incentives and the Share Incentive Plan.

Tax attack on employee owned companies

So how can the Government countenance the latest threat to companies who wish to sustain "long term commitment" by their employees via the indefinite retention of shares in an employee benefit trust (EBT)? The Inland Revenue has confirmed in a briefing with Equity Incentives Limited this week that anti-avoidance tax legislation announced in November 2002 will apply to all EBTs without exception and that companies will not receive any tax deduction until shares in the trust have been distributed to employees.

All very well for quoted companies whose shares are readily tradeable on a stock market – but what about smaller, privately held companies whose shares cannot so easily be sold?

There are many companies who have set aside shares in a trust which will not be distributed to employees but are held on their behalf indefinitely. The most famous and successful example is

Equity Incentives Limited 35 Vine Street London EC3N 2AA
Tel: +44 (0)20 7861 4717 Fax: +44 (0)20 7488 0084
E-mail: info@equityincentives.co.uk Website: www.equityincentives.co.uk CDE: 823

John Lewis Partnership, whose trust structure has been admired and emulated by private companies whose owners believe passionately in employee share ownership and who, in many cases, have given away a proportion of their companies to their employees via a trust. They aim to involve, reward and motivate their employees and, until now, could expect a tax deduction to compensate them for this.

Fulcrum Productions Ltd and Fulcrum Research Ltd

One such company founder is Christopher Hird, of Fulcrum Productions Ltd (www.fulcrumtv.com) and Fulcrum Research Ltd (www.fulcrumresearch.com). Over the past fifteen years Christopher Hird and his co-founder Richard Belfield have, with their colleagues, built two successful businesses: a television production company and the leading independent share register analysis company. They have established a raft of employee share plans, including an employee benefit trust which holds shares on behalf of the employees. The founders' hope and objective is that eventually the ownership of both businesses will be transferred to the people who have helped make them a success, the employees themselves. So what effect will the new legislation have on this aim? Christopher Hird says: "We believe that there is a prosperous and secure independent future for our companies as employee owned businesses, in which employees own shares both individually and also in common. Our structure is a good way of balancing the interests of employees today with those of employees in future years. We are extremely disheartened that the government wants to impose a "one solution suits all" model on business, apparently oblivious of the success of businesses which are wholly owned and controlled by employees. By threatening the long term independence of our companies, we believe that the government's proposal poses a threat to both our business and the interests of our employees."

The solution?

Equity Incentives Ltd believes in the importance of sustaining long-term employee share ownership via EBTs. Our clients have included a firm of architects, a world-famous preserves manufacturer, an energy efficiency advisory company and numerous other smaller privately held companies. The proposed legislation will deliver a severe blow to the many genuine proponents of employee share ownership in the UK and runs contrary to the Chancellor's aim of promoting long term share ownership in small businesses.

This can be avoided if the Finance Bill is drafted so as to exclude from the legislation EBTs which support genuine employee ownership. The Inland Revenue is doubtful this can be achieved because it wants no loopholes in its new anti-avoidance legislation. Various organisations are proposing to write to Dawn Primarolo MP, the Paymaster General at HM Treasury, 1 Horse Guards Road, London SW1A 2HQ to make their feelings known. Unless there is successful lobbying, this change in the law will prevent or deter companies following the

Equity Incentives Limited 35 Vine Street London EC3N 2AA
Tel: +44 (0)20 7861 4717 Fax: +44 (0)20 7488 0084
E-mail: info@equityincentives.co.uk Website: www.equityincentives.co.uk CDE: 823

example of John Lewis Partnership, and could overturn years of progress towards making such structures attractive to and possible for a wide variety of UK businesses.

Notes to editors

1. Equity Incentives Ltd advises private and quoted companies on the design and implementation of employee share plans.

2. Graeme Nuttall, Managing Director, is recognised as a leading expert on employee share plans. He has been involved in developing employee share ownership legislation in a number of countries including the UK over the last 20 years.

3. For more information, contact Graeme Nuttall on 020 7861 4000 or graeme.nuttall@equityincentives.co.uk or Christopher Hird on 020 7689 4256 or christo@fulcrumtv.com.

4. A briefing paper on the new law may be found at http://www.equityincentives.co.uk/content/resources/news.htm

Equity Incentives Limited 35 Vine Street London EC3N 2AA
Tel: +44 (0)20 7861 4717 Fax: +44 (0)20 7488 0084
E-mail: info@equityincentives.co.uk Website: www.equityincentives.co.uk CDE: 823