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Your weekly blog on all things EO
with Barry Horner

Episode 15 | Series 1

Beyond the Handshake. Setting the Timeline for Your First Employee Ownership Profit Share.

Knowing when to pay your first Employee Ownership Trust (EOT) bonus is crucial. In my experience I suggest that best practice is to make this payment immediately after the first financial year-end that the EOT legally takes control of the business. This approach should be seen as best practice for several strategic and cultural reasons and built into a formal profit share plan.

Robust cash-flow modelling is a prerequisite of any successful EO transition. This must balance three competing demands: the new profit-share scheme, the schedule of deferred consideration (vendor debt), and the capital required to scale the business. We recommend modelling ‘Optimistic, Pessimistic, and Expected’ scenarios. However, these models are navigational tools rather than guarantees; all stakeholders must remain agile, as post-transaction reality rarely mirrors a spreadsheet perfectly.

Employee-owners must recognise that the profit share is a direct reflection of their collective contribution. Unlike a fixed salary, the bonus pool is a variable reward that fluctuates based on company performance. By reinforcing the link between daily actions

and year-end outcomes, the business cultivates a true ownership culture where every individual understands that while there are no guarantees, they have a direct hand in the firm's financial success.

Timing for EOT Bonus Payment

The ideal time to start distributing the bonus should be linked to the first full period of measurable financial success under the new EOT structure.

Waiting until the end of the first full financial year post-transition allows the company to:

1. Accurately calculate the profits generated under employee ownership.
2. Determine the maximum bonus pool available after setting aside necessary funds for growth, debt repayment (related to the payment of the EOT deferred consideration), and working capital.
3. Demonstrate a clear cause-and-effect link between the employees' new ownership motivation and the resulting financial performance.

Prompt Communication

While the payment happens after year-end, it's best practice to communicate the EOT bonus plan and potential eligibility criteria immediately upon or shortly after the transaction closes. This manages expectations and reinforces the new ownership culture from day one.

Our experience with employee ownership, dating back to 2019, highlighted a critical truth about the "Information, Influence, Reward" model. You cannot expect employee owners to meaningfully influence strategic outcomes if their compensation and profit rewards are not delivered with complete fairness and transparency. Undefined or inequitable rewards will instantly stifle the desire for influence.

Strategic and Cultural Benefits

Starting the bonus payment early is crucial for embedding the ownership culture and capitalising on the EOT's many advantages.

1. **It reinforces the ownership mindset.** Paying the first bonus quickly provides tangible evidence that employee ownership is real and financially beneficial. This is

vital to converting initial scepticism into active engagement.

2. **It capitalises on momentum.** The period immediately following the transition has high motivational potential. Delaying the bonus beyond the first year can dampen enthusiasm and lead employees to question the financial benefits of the EOT.
3. **It is tax efficient.** The EOT-qualifying bonuses are a powerful tool because they can be paid tax-free to employees up to a limit of £3,600 per person, per year (as of the current UK tax regime). Utilising this benefit quickly reinforces the financial attractiveness of the model. Please do note however that the bonus is not NIC free.
4. **You need to create clarity on debt and reward.** The company needs profits to service the debt used to buy the shares from the previous owners. By waiting one full year, the executive team can present a clear picture to employee owners on how much profit went to debt repayment (securing the EOT) versus how much is being allocated to employee reward (the bonus).

A few other things to watch out for

- The first bonus sets a powerful precedent. Avoid an unsustainably high initial payout (e.g., due to an unusual one-off profit) that employees will expect every year. The first bonus should be realistic, sustainable, and clearly communicated as a percentage of distributable profits.
- Payment in equal measure to all employee owners reinforces the owner mindset and that 'we are all in this together'.
- The bonus is based on operating profits, but it must be paid in cash. Watch out for a disconnect where profits are high, but cash is tied up in working capital.
- For the bonus to qualify for the tax-free status of up to £3,600 per person per year in the UK, it must be paid on the same terms to all qualifying employees.
- Remember that the priority is ensuring the bonus doesn't undermine the business's long-term health or ability to repay the EOT acquisition debt. (Deferred consideration.)
- The executive must clearly communicate how the bonus pool is calculated. Without this transparency, employees may only focus on the total profit figure and feel aggrieved if the final bonus is lower.
- If you choose to delay the bonus payment, clearly articulate the strategic reason. A delay without a clear explanation undermines trust.
- Clearly define the date from which profits are considered 'EOT profits.' Typically, this is the date the EOT transaction legally completes, and a new financial period begins for bonus calculation. Do not mix pre-EOT profits with post-EOT profits for

the first payout.

- Tax-free qualification. Strictly adhere to the qualifying rules for the tax-free status.

The Board of Trustees, and specifically the Independent Trustee, serves as the strategic ‘conscience’ of the EOT. Following the 2025 legislative updates, the Trustee’s role in overseeing ‘cash-allocation’ is more vital than ever. An Independent Trustee brings a wealth of cross-sector experience, ensuring that the balance between employee reward and debt repayment is handled with objective fairness. Their presence provides the executive team with a ‘sanity check’ and gives employee-owners confidence that profit-share decisions are transparent and unbiased

In summary, I would suggest that best practice is to announce the mechanism immediately, but to make the first payment following the first full financial year-end after the EOT transaction is completed.

A note to readers: this information is correct at the time of publication; however, readers should confirm the current position before taking action.

For more information or to discuss anything in this latest Know-How;
Contact **Barry Horner** at bhorner@pnfp.co.uk.

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