

Employee Benefit Trust

This note is designed to provide an insight into the benefits and features of a Jersey Employee Benefit Trust.

Overview

A Jersey employee benefit trust (“EBT”) is cost effective to set up and with a wide range of options and benefits available, it is an attractive solution for employers seeking to incentivise their employees.

Employee Benefit Trust

In short, an EBT is a discretionary trust set up for the purpose of benefitting employees. It is otherwise known as an employee share ownership plan or an employee share trust. As with any other discretionary trust, the EBT has a trustee and beneficiaries, with the employees of the company being the beneficiaries. The company will have an important role to play regarding the choice of trustee and in relation to ensuring that the trust is established in the right way to benefit its employees.

How does it work?

As a typical example, the parent or employing company establishes a discretionary trust and appoints a professional trustee, which can be based in Jersey. The discretionary trust deed is sometimes accompanied by scheme rules which set out the conditions that must be satisfied before a beneficiary can benefit. The trustee usually then creates a series of separately identifiable sub-funds with each sub-fund being for the benefit of a particular employee and his family.

Upon the establishment of the trust, the trustee will tend to work with the company and the relevant employee to determine when and how benefits will be made.

Benefits of an EBT

- Can be used where a company wishes to create more liquidity and thereby make share ownership more meaningful for its employees;
- Help to increase productivity and other positive corporate outcomes;
- Donations to the trust by the company may be deductible for corporation tax purposes;
- Potential reduction in company costs, such as social security;
- Creates a mechanism for employee share plans, and with a private company it can be used to buy shares from shareholders who want an exit or from employees who wish to leave the company;
- Can be used to own shares in a trading company which provides the staff with a stake in the business and via the trustees, a voice in the direction of the business;
- Acting as a warehouse for shares;
- Growth of pre-tax contributions within a tax favoured environment; and
- There could be income tax, social security and capital gains tax benefits for employees.

Incentive arrangements

There are a number of incentive arrangements, which may differ depending upon the nature of the company or the requirements of the employees. These incentive arrangements are often serviced by an EBT and the benefits include investment flexibility, tax planning and deferral. Whilst there is a wide variety of different incentives, below is a list of possible arrangements:

- Co-ownership arrangements;
- Share option plans;
- Long and short term performance incentive plans;
- Bonus conversion plans;
- Employee stock purchase plans;
- Discretionary cash awards plans;
- Corporate and employee nominee services;
- Phantom share option schemes; and
- Loans - interest free or on favourable terms.

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