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Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
The Correspondence and Enquiry Unit
1 Horse Guards Road
London, SW1A 2HQ

2 February 2021

Dear Chancellor,

We understand the need for the Exchequer to raise revenue in light of the unprecedented state financial intervention to protect businesses and livelihoods during the Covid-19 Crisis. However, we at the Esop (*Employee Share Ownership*) Centre and kindred organisations have significant concerns on certain tax changes being explored.

For years, cross-party support in the UK and elsewhere for tax-advantaged employee participation in enterprise success has held solid, justly so, in part to encourage enterprise and the engagement of a wide population in democratic wealth creation. Employee share ownership is intended to help ease the natural economic tendency of un-trammelled capital forces toward increasing income and wealth disparities.

Many share scheme practitioners and user companies have expressed concern about recent proposals within a Treasury commissioned review regarding CGT. The primary concern is the suggested scale of the reduction in the annual CGT exemption allowance. Almost all tax-advantaged employee share scheme participants have no other source of capital gain and in large part, their gains fall within the current exemption. To alter that landscape would be worrying.

To align the charge band rates of CGT with income tax rates over time, as the review proposes, while less injurious to some, would entail significant administration implications, not least for HMRC, and communication challenges too. Were these proposals implemented in full, at least 400,000 employee shareholders, many low paid, would have the novel experience of completing self-assessment returns. They would struggle to plan for and negotiate the required self-assessment and tax settlement processes.

Reflecting upon the potential impact of CGT increases; there may well be adverse repercussions. Such changes would reduce Exchequer revenue in several ways: there might be a cut back or withdrawal of share plans by company sponsors, as well as disengagement by employee participants which, combined with the resulting reduced incentive effect of capital ownership on a broad basis, could lead to an incremental, but significant, drag upon enterprise and the recovery. Reputable research projects, e.g., the Rutgers University and the SSRS survey about superior Esop company performance during the pandemic (see annex), show that all-employee share ownership does, over time, tend to raise productivity, return on capital and workforce loyalty (reducing the job attrition rate). To maintain that the evidence of the efficacy of all-employee share plans in these key aspects is only 'mixed' is not justified.

Tax yield expectations arising from implementing such proposals could fall short; combined in multiple ways. Has there been break-even analysis that might cast light upon that point and might be adumbrated within the private sector?

YBS (Yorkshire Building Society) Share Plans savings director, Tina Hughes, said: "*Internal data shows that 98 percent of employees who use Sharesave plans do not currently exceed their annual CGT allowance. Our main concern is preserving the annual allowance at something close to its current level. We believe that the proposed shift in allowance is likely to deliver only a minor uplift in revenue for HM Treasury but could result in many lower-income employees, who are highly likely to be unfamiliar with the self-assessment process, having to complete a CGT tax return for the first time.*"

She added: "*We're keen to discuss this matter further and seek a sensible solution to protect hard-working employees including key workers in retail outlets and factory floors. With the current economic downturn, uncertainty from the on-going pandemic and the end of the EU withdrawal agreement, we believe UK businesses need the employee engagement and motivation that comes from employee share ownership more than ever.*"

YBS Share Plans shared other reactions from employers currently using SAYE-Sharesave: "*If the annual exemption were to be significantly reduced,* *the thought of a tax charge arising / the assumed complexity in having to deal with it would put a significant question mark on it for many. By adding complexity / uncertainty, it puts it in the '*could be too difficult*' box and I'd expect that a large share of our take up would fall away,"* said a CFO.

An HR officer of another employer who has installed Sharesave told YBS: *"This could be concerning as we have a high uptake to our scheme with many people contributing maximum contributions so this will have an impact and I suspect in future schemes we will see numbers reduce. Not sure whether we would stop offering the scheme as it will still be beneficial for some, but we would have to discuss the future approach of Sharesave internally. I find it quite sad that the ordinary employee has to help pick up the tab for Covid, but I suppose someone has to……."*

Most Sharesave participants, including many supermarket check-out staff and factory workers, have no other savings vehicles, other than the biscuit tin on the mantelpiece. Their SAYE scheme gains on vesting are their rainy-day savings, enabling them to buy new furniture, take a holiday, or pay for a sudden disaster. They are not sophisticated private investors who can park their gains in ISAs, or other tax efficient vehicles.

There is significant participation too within the two discretionary plans – the Enterprise Management Incentive (EMI) and the Company Share Option Plan – as well as in Growth Shares and the like. While the social justice point applies perhaps less forcefully to the latter plans; the impact of enterprise and initiative on a start-up or wider management basis should be not just acknowledged but promoted. Simply put; we see both Growth Shares and EMI as being significant fertilisers for the UK economy; other jurisdictions have similar regimes; talent and capital are geographically mobile at this level of business operation.

In short, we entreat you to spare a very large number of employee share plan participants the pain of suffering a slashed exemption allowance and/or swingeing CGT charge band rises. We would request you approach with care amendments to revise tax rates on other tax-favoured equity incentives within the CGT regime.

We would be happy to assemble a small discussion delegation for you, or a relevant Treasury minister, at your convenience, via tele-call or in person, to discuss these points in more detail.

Yours faithfully

Professor Michael Mainelli FCCA FCSI(Hon) FBCS
Executive Chairman, Z/Yen Group Limited
Co-chairman, The Esop Centre

Esop Centre Membership

The Esop Centre membership comprises accountancy practices, major corporate and international law firms, remuneration consultancies, companies which sponsor share plans and global trustees. We send this letter with their agreement either to sign a further letter, or their agreement with the contents of this letter for those who do not comment publicly on policy issues.

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Annex

Esops have outperformed non-employee-owned companies during the pandemic and are more optimistic generally that they will return at some point to normal business activity, concluded a new study, conducted by *Rutgers University* and the *SSRS* survey firm. The study report, based on data until last September, echoed similar findings about the performance and behaviour of employee-owned companies during the 2008-2010 recession, said an article in ***Forbes*** magazine - https://www.forbes.com/sites/maryjosephs/2021/01/14/looking-past-the-pandemic--esops-employee-ownership-companies-set-to-outperform-in-anticipated-2021-recovery/?sh=5b8a694525c4

Specifically, the study concluded that majority owned Esop firms:
- Drastically outperformed other firms at retaining jobs by a four-to-one rate.
- Maintained standard hours and salaries at significantly higher rates than other firms.
- Only 27 percent of Esops cut pay vs. 57 percent at other firms.
- 16.4 percent of Esop workers had hours pared vs. 26 percent at other companies.
- 85 percent of Esops sent employees home to work vs. 67 percent of non-Esops and
- More Esops provided employee personal protective measures, such as masks and gloves and ordered additional sanitising and professional cleaning.

In addition, the Rutgers/SSRS study suggests that when deciding to retain staff, Esops ascribe higher levels of importance of preserving valued employee skills, ties to customers and clients, a culture of teamwork, and a sense of ownership.

The study found that long-term public policy encouraging employee ownership produces greater job stability during a crisis than emergency government spending. In particular, Esops were nearly six times more likely to anticipate their business would return to its previous level of performance than non-Esops.

Esops' resilience versus other companies ties into the exciting nexus on the merger/acquisition front that occurred between employee ownership and private equity in 2020. This action has picked up steam steadily over the past decade and became main-stream last year, said *Forbes.*