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How to create an ESOP plan

For employee share ownership in SMEs, the ESOP is the simplest and most effective plan in the world.

Here's how to do it:

1. You are the main shareholder of XYZ Company and you want to sell your shares.

2. You create a "Foundation (or trust) for Employee Share Ownership and Pensions at Company XYZ".

3. You sell your shares to the foundation. For the payment, you make credit to the foundation (or help it to obtain credit or other financing).

4. The following year, as every year, XYZ company makes a profit. This used to be taxed. But not anymore. The company calculates and pays the foundation a pension contribution equivalent to the profit before employee shareholding. From then on, the profit has disappeared. No profit, no tax.

5. The foundation receives the annual pension contribution. It is a non-profit organisation, so it is not taxed on its income. No tax there either.

6. The foundation creates an individual account for each employee. This registers each employee's rights to receive shares in Company XYZ when he or she leaves the company (usually at retirement age).

7. In addition, the foundation organises a system for employee shareholders to vote on items on the agenda of the annual meeting of shareholders of company XYZ.

8. Each year, the foundation receives the supplementary pension contribution of the employees who are members of the plan. This contribution is first used to repay the credit originally received to purchase the shares.

9. Then, the free shares are added each year in the form of "entitlements" to each employee's individual account, using a simple distribution key (often pro rata to wages).

10. Thus employees exercise their rights as shareholders and own the shares, except that they can only dispose of (sell) them when they leave the company. They are highly motivated to make everything work for the best. In fact, it has been observed that companies with ESOP plans work better than others.

An ESOP plan is as simple as that.