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## **The GNU can drive new growth and value through transformative employee ownership (GNU : Government of National Unity)**

By [Bruce Hunt](#) - Daily Maverick - 13/8/24

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South Africa's new Government of National Unity presents a significant opportunity to drive policy that encourages more employee share ownership. Employee share ownership has been a successful element of black economic empowerment (BEE) and almost universally accepted by all political parties and stakeholders, including the ANC, organised labour, large business and the DA, as set out in its 2019 election manifesto.

The rationale is clear: more workers owning production aligns with economic growth with extensive research backing its benefits. It can be a lever that drives inclusive growth and reduces the pay gap and inequality.

Internationally, countries like the US, the UK and Singapore have implemented policies that promote employee ownership through tax incentives.

In South Africa, the two government departments that should be spearheading this policy are the Treasury and the Department of Trade, Industry and Cooperation (dtic). Treasury must drive the tax and fiscal regime, while dtic provides the empowerment and legislative regime to encourage employee ownership.

The number of employee share ownership plans (Esops) in South Africa has grown in recent years. These have enhanced employee participation in the corporate sector and are pivotal in Competition Commission approvals.

Companies are increasingly adopting so-called "evergreen" share schemes that allow employees to benefit across business cycles, promoting long-term participation in company growth over options of share price volatility or similar funding structures.

The Income Tax Act is still limited for BEE ownership purposes. At least 80% of all permanent employees must participate, employees must be fully entitled to dividends and voting rights, and there can be no restrictions on the disposal of shares except for a lock-in period of up to five years.

Bad leaver provisions, limited benefits and a lack of revisions have hindered its adoption and effectiveness.

Meanwhile, the Tax Code offers limited relief by linking the taxation date to vesting. It taxes gains from Esops at the highest marginal rate at the time of vesting, resulting in a significant tax burden for employees and there is a lack of deductibility for companies. This does not accommodate the new Esop structures.

An obvious complication in SA is the integration of Esops with BEE initiatives. These place undue financial risk on employees, underscoring the necessity for perpetual share ownership schemes that provide sustainable benefits.

This could make Esops more attractive and feasible, aligning South Africa with global best practices.

### **Global pointers**

There are many global examples of successful employee share ownership schemes' tax incentive regimes.

In the UK, for instance, a number of policies have been introduced including enterprise management incentives aimed at smaller, high-growth companies, share incentive plans allowing employees to purchase (often discounted) shares with tax-efficient benefits; and save as you earn (SAYE), a savings-related share option scheme that permits employees to save and then buy shares at a predetermined price.

Companies, meanwhile, can deduct corporate tax for the difference between the exercise price and the market value of the shares. And employees are not charged income tax or national insurance contributions.

In the US, corporate contributions to Esops are tax deductible and the loans used to buy company stock can be repaid with pre-tax dollars. Owners who sell their shares and create majority employee-owned companies get capital gains tax roll-over relief, encouraging the creation of employee-owned companies. Shares are also not always taxed at vesting, but when employees sell and often at the capital gains tax rate. This allows for longer-term holding and wealth creation

The IRS allows businesses to deduct expenses related to setting up and administering Esops and other incentive schemes as business expenses. This includes legal, consulting and administrative costs directly associated with the maintenance of the plan.

Singapore has introduced Esops and employee share ownership (Esow) which offer tax exemptions or deferrals to make it easier for employees to participate in share ownership, aligning their interests more closely with the business.

Australia has encouraged employee share schemes (ESS) by providing tax concessions for startups in an effort to attract, retain and reward employees with shares or options.

### **The motivation**

The underlying motivation for all of these is clear: improving corporate performance, aligning interests between employees and employers, fostering a sense of ownership and engagement and distributing wealth more equitably.

Each country has tailored its policies to fit its specific economic and social context, using tax incentives as a tool to encourage participation.

South Africa needs to be led by global best practice and ensure its fiscal policies reflect and support our socioeconomic objectives. Not only is a re-evaluation and adjustment of Esop-related tax legislation overdue, but it's time for policymakers to take decisive action to ensure these schemes are as beneficial in practice as they are in principle.

Implementing the right legislation will encourage more companies to adopt Esops, fostering a forward-looking approach to economic development, corporate governance, inclusive growth and social equity. This will contribute to a more equitable and prosperous SA economy. **DM Bruce Hunt is managing director of Transcend Capital and is lead faculty on an Esop Playbook programme running at the Gordon Institute of Business Science (GIBS).**