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Employee Ownership Trusts (EOTs)

A Definitive Guide

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FOREWORD

For most business owners, succession isn't just a transaction – it's a deeply personal moment. It's the point where years of work, sacrifice, and belief meet the future. And for many, the question isn't simply "How do I exit?" but "How do I protect what we've built?"

At CBSL Accountants, we've spent years walking alongside owners as they navigate this transition. We've seen the pride, the uncertainty, the desire to look after the people who helped build the business, and the hope that the next chapter will honour the values that shaped the journey.

Employee Ownership Trusts offer a route that aligns beautifully with those instincts. They allow owners to realise fair value, protect their culture, and give employees a meaningful stake in the future – all while keeping the business independent.

This guide brings together the technical essentials with the human realities. It's designed to help you understand the EOT model in clear, practical terms, and to give you confidence as you explore whether it's right for you, your people, and your legacy.

If you'd like to talk through your options, we're here – not just as advisors, but as partners in the next stage of your story.

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1 INTRODUCTION

Every business owner reaches a moment when the future becomes the priority. Not the next quarter, not the next contract – but the next chapter. For some, that moment arrives gradually, through a growing desire to step back or rebalance life. For others, it comes suddenly, triggered by health, family, or opportunity. But whenever it arrives, the question is the same: What happens to the business now?

Succession planning is often framed as a technical exercise – valuations, tax, legal structures, negotiations. In reality, it is far more human. It is about identity, legacy, relationships, and trust. It is about ensuring that the people who helped build the business are treated fairly, and that the culture you've nurtured doesn't evaporate the moment you step away.

Employee Ownership Trusts (EOTs) have emerged as one of the most compelling answers to this challenge. They offer a way for owners to exit gradually and gracefully, while protecting the independence of the business and giving employees a meaningful stake in its future. They are not the right solution for every business – but for the right business, they can be transformative.

Over the past decade, EOTs have moved from niche to mainstream. More than 2,400 UK businesses are now employee-owned, with adoption accelerating across sectors including manufacturing, professional services, technology, healthcare, and retail. The model has matured, the evidence base has strengthened, and the advisory ecosystem has grown more sophisticated.

The 2025 Budget introduced the first major tightening of EOT tax relief since 2014, reducing the Capital Gains Tax exemption from 100% to 50%. While this change has prompted debate, the EOT route remains one of the most tax-efficient and culturally aligned succession options available to owner-managed businesses. The fundamentals – fairness, stability, independence, and long-term stewardship – remain unchanged.

This guide is designed to help you understand the EOT model in a way that is clear, grounded, and practical. It blends technical accuracy with the human perspective that matters most to business owners. It explains how EOTs work, what they offer, what they require, and how the process unfolds. And it does so in a tone that reflects the CBSL approach: warm, steady, and focused on what truly matters.

2 UNDERSTANDING EMPLOYEE OWNERSHIP TRUSTS

To understand the appeal of an Employee Ownership Trust, it helps to begin with the broader concept of employee ownership. At its core, employee ownership is about aligning the interests of the people who work in a business with the long-term success of that business. It is about creating a structure where employees feel invested – emotionally, culturally, and financially – in the future they are helping to build.

There are three main models of employee ownership in the UK: **direct ownership, indirect ownership, and hybrid ownership.**

At its core, employee ownership is about aligning the interests of the people who work in a business with the long-term success of that business.

Direct ownership
In a direct ownership model, employees hold shares in their own names. This is often achieved through share option schemes such as EMI (Enterprise Management Incentives) or through growth shares. Direct ownership can be powerful for key individuals, giving them a personal stake in the value they help create. However, it can also be administratively complex, and it does not always create a sense of collective ownership across the wider workforce.

Indirect ownership
Indirect ownership is the model used by Employee Ownership Trusts. Instead of employees owning shares individually, a trust is established to hold a controlling interest in the company on behalf of all employees. No single employee owns shares personally; instead, the trust owns the business collectively for their benefit. This is the model made famous by John Lewis, and it has become the dominant form of employee ownership in the UK.

Hybrid ownership
Hybrid models combine the two approaches. The EOT holds the majority stake, ensuring the business remains employee-owned, while key individuals may also hold direct share options through an EMI scheme. This can be particularly effective in businesses where retaining and motivating senior leaders is essential to long-term success.

Certain sectors are non-qualifying for EMI schemes and the tax benefits they bring. Growth shares can be used as an alternative, in which growth-shareholders benefit most after a certain threshold has been reached.

The EOT model has grown rapidly because it strikes a balance that many owner-managed businesses find attractive. It is simple to administer, fair to employees, and aligned with the long-term health of the business. It also provides a clear and tax-efficient exit route for owners – even after the 2025 changes.

3 WHY OWNERS CHOOSE THE EOT ROUTE

When owners first explore the EOT model, they often begin with the tax advantages. Even after the 2025 Budget changes, the EOT route remains one of the most favourable in the UK tax system. Under the updated rules, 50% of the gain on a qualifying sale to an EOT is exempt from Capital Gains Tax, and the remaining 50% is taxed at the standard CGT rate, resulting in an effective rate of around 12%. This is still significantly more favourable than most third-party sales, where CGT can be much higher.

But while tax is often the starting point, it is rarely the deciding factor. The deeper appeal of the EOT model lies in what it allows owners to protect.

Many owners care deeply about the culture of their business – the way people treat each other, the way decisions are made, the way customers are looked after. They worry that a sale to a competitor or private equity firm could erode that culture. They worry about redundancies, restructuring, or a shift in priorities. An EOT allows them to preserve the essence of the business they built.

Owners also value the stability and predictability of the EOT route. There is no need to run a competitive sale process, no risk of deals collapsing at the eleventh hour, and no pressure to negotiate with buyers who may have very different intentions for the business. The terms of the transaction are largely within the owner's control, and the process is typically smoother and less adversarial than a third-party sale.

Finally, many owners appreciate the opportunity to remain involved for a period after the sale. In most EOT transitions, the selling owner continues in their role — often as Managing Director or Chair — until the deferred consideration has been paid. This allows for a gradual, well-managed handover and ensures continuity for employees and customers.

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4 HOW AN EOT TRANSACTION WORKS

An EOT transaction is built around a simple idea: the trust buys a controlling interest in the company on behalf of the employees, and the business itself funds the purchase over time.

The process begins with the creation of the trust. A trust deed is drafted to set out the purpose of the trust, the beneficiaries (which must include all employees, subject to limited exceptions), and the powers and responsibilities of the trustees. The trust must be UK-resident, and it must be structured to hold a controlling interest in the company.

Once the trust is established, the next step is the sale of shares. The selling owner transfers more than 50% of the company's shares to the trust at market value. An independent valuation is essential, both to satisfy HMRC and to ensure that the trustees are fulfilling their duty to act in the best interests of the employees.

The purchase price is typically funded through a combination of an initial payment and deferred consideration. The initial payment may come from the company's reserves or from external finance. The deferred consideration is paid over time from the company's future profits. These profits flow from the company to the trust, and from the trust to the selling owner.

Throughout this process, the company continues to operate as normal. The board remains responsible for day-to-day management, and the trust acts as the majority shareholder, providing oversight and ensuring that the business is run in the interests of the employees.

The 2024 changes expanded the definition of allowable acquisition costs, meaning that repayments of acquisition debt, valuation costs, stamp duty, and reasonable transaction expenses can now be funded tax-efficiently through the trust. This has made the EOT model more flexible and sustainable.

The EOT model is flexible and sustainable.

5 QUALIFYING CONDITIONS

For a sale to qualify for the 50% CGT exemption, several conditions must be met. These conditions are designed to ensure that the EOT model is used for genuine employee ownership, not as a tax avoidance mechanism.

The trust must be UK-resident, and the company must be a trading company or the principal company of a trading group. The trust must acquire a controlling interest in the company – more than 50% of the shares, voting rights, profits, and assets on winding up.

All employees must be eligible beneficiaries of the trust, subject to a qualifying period of up to one year. Benefits must be provided on the same terms for all employees, although variations based on salary, length of service, or hours worked are permitted.

The trust must not pay more than market value for the shares, and the number of "participators" – broadly, individuals who hold or have held significant shareholdings and connected parties such as their spouse or children – must not exceed 40% of the total number of employees.

Finally, the selling owner must not retain control of the company or the trust. If any of these conditions are breached within four years of the sale, the CGT relief may be clawed back.

The selling owner must not retain control of the company or the trust.

6 TAX IMPLICATIONS UNDER THE 2025 RULES

The 2025 Budget introduced significant changes to the tax treatment of EOT transactions. Under the new rules, 50% of the gain on a qualifying sale to an EOT is exempt from Capital Gains Tax, and the remaining 50% is taxed at the standard CGT rate. This results in an effective tax rate of around 12%, which remains highly favourable compared to most alternative exit routes.

The deferred 50% of the gain is only taxed if the trust later disposes of the shares. This creates a latent tax charge within the trust, but it does not affect the selling owner even if the trust sells the business in the future.

Employees continue to benefit from the ability to receive up to £3,600 per year in income-tax-free bonuses, subject to NIC. The company can claim a corporation tax deduction for these bonuses.

The trust pays stamp duty at 0.5% on the purchase of shares, and acquisition costs – including debt repayments, valuation fees, and reasonable transaction expenses– are broadly deductible.

The trust pays stamp duty at 0.5% on the purchase of shares, and acquisition costs.

7 GOVERNANCE AFTER THE TRANSITION

Once the EOT transaction is complete, the governance structure of the business changes in important but subtle ways. The board continues to run the business day-to-day, setting strategy, making operational decisions, and fulfilling statutory responsibilities. The trust, as the majority shareholder, provides oversight and ensures that the business is run in the interests of the employees.

The trustees play a crucial role in this structure. They are responsible for holding the board to account, approving major decisions, and ensuring that the trust's purpose is upheld. Trustees typically include an employee representative, a seller representative, and an independent trustee. This blend of perspectives helps to ensure balanced, long-term governance.

The trust deed sets out the powers and responsibilities of the trustees, and the company's Articles of Association continue to govern the board. Together, these documents create a framework that supports stability, accountability, and long-term stewardship.

8 THE JOURNEY TO BECOMING EMPLOYEE-OWNED

The process of transitioning to an EOT typically unfolds in several stages. It begins with an initial assessment of suitability, where the owner and advisors explore whether the EOT model aligns with the business's financial position, culture, and long-term goals.

If the EOT route appears suitable, the next step is an independent valuation. This valuation must be robust, defensible, and fair to both the selling owner and the employees. It forms the basis of the transaction and is submitted to HMRC as part of the clearance process.

Financial modelling is then undertaken to assess the affordability of the transaction. This modelling considers the company's current and projected profitability, the level of initial payment that can be made, and the timeframe over which the deferred consideration can be repaid.

Once the valuation and modelling are complete, the trust is created, and the legal documentation is drafted. This includes the trust deed, the share purchase agreement, and any loan notes or security documents. HMRC clearance is sought to confirm that the transaction will not be subject to anti-avoidance legislation.

While this clearance does not guarantee eligibility for the CGT exemption, it provides valuable reassurance.

Employee communication is a critical part of the process. Employees need to understand what the transition means for them, how the trust works, and how they will benefit. Clear, honest communication helps to build engagement and support.

The transaction is then completed, and the business begins its journey as an employee-owned company. Ongoing governance, compliance, and communication are essential to ensuring the long-term success of the model.

9 EMI SCHEMES AND HYBRID OWNERSHIP

While the EOT model provides indirect ownership for all employees, many businesses choose to complement it with direct ownership for key individuals through an EMI scheme.

EMI options can be a powerful tool for retaining and motivating senior leaders, aligning their interests with the long-term success of the business.

Under a hybrid model, the EOT holds the majority stake, ensuring that the business remains employee-owned, while key individuals hold options that allow them to acquire shares directly in the future. This combination can provide the best of both worlds: collective ownership for the wider workforce and targeted incentives for key leaders.

It is essential, however, that the EOT retains more than 50% ownership at all times. Careful planning is required to ensure that EMI options do not dilute the trust's controlling interest.

In certain circumstances an EMI scheme is not available to companies, therefore growth shares are another way to allow senior members to hold shares directly in the company.

Growth shares will have a hurdle set, usually when a company goes above a certain value. Once reached the shareholders can benefit from the increase in value of the company above this hurdle value, as well as dividends.

Initially growth shares have minimal value due to the shareholders not being able to receive any benefit from the company until this hurdle is reached, this therefore makes them a good way of allowing senior members to hold shares without having to part with large amounts of cash to purchase the shares or face large tax bills if they are issued with the shares for no consideration.

10 TRENDS AND DEVELOPMENTS IN EMPLOYEE OWNERSHIP

The employee ownership landscape continues to evolve. Sector-specific EOTs are emerging in areas such as healthcare, technology, and renewables, where the model aligns well with long-term, mission-driven cultures. Community owned EOTs are also gaining traction, with trusts holding shares on behalf of employees and other stakeholders such as customers or local residents.

Digital platforms are being developed to support the administration of EOTs, making it easier for businesses to manage governance, communication, and compliance. While these platforms are still maturing, they represent an important step toward making employee ownership more accessible.

International interest in the EOT model is growing, with businesses in other countries exploring the feasibility of adopting similar structures. The UK remains a global leader in employee ownership, and the EOT model is increasingly seen as a blueprint for sustainable business ownership.

The government continues to consult on potential changes to the EOT legislation, including measures to strengthen governance and prevent abuse. While the 2025 Budget introduced significant changes to the tax treatment of EOTs, the core principles of the model remain intact.

11 COMPARING EXIT ROUTES

When considering succession options, it is helpful to compare the EOT route with alternatives such as a third-party sale or a management buyout. Each route has its advantages and challenges, and the right choice depends on the owner's goals, the business's financial position, and the cultural implications of the transition.

A third-party sale can achieve a premium valuation, particularly if the buyer has a strategic interest in the business. However, it can also be complex, time-consuming, and uncertain. Negotiations can be challenging, and the cultural impact of a sale to a competitor or private equity firm can be significant.

A management buyout allows the existing leadership team to take ownership of the business, providing continuity and alignment. However, it requires the management team to have the financial capacity and appetite for ownership, and it may involve significant borrowing.

The EOT route offers a unique combination of fairness, stability, and cultural alignment. While the valuation may be slightly lower than a strategic sale, the tax advantages, controlled process, and preservation of culture often make it an attractive option for owner -managed businesses.

12 IS AN EOT RIGHT FOR YOU?

The EOT model is not the right solution for every business, but it can be a powerful option for those that value independence, culture, and long-term stewardship. It is particularly well-suited to businesses with stable profitability, strong employee engagement, and a desire to remain independent.

If you want to protect your culture, reward your employees, and exit in a way that feels fair and sustainable, the EOT route may be worth exploring. If you prefer a controlled, predictable process and value the opportunity to remain involved during the transition, the EOT model aligns well with those priorities.

The 2025 changes to the CGT exemption have altered the financial landscape, but the EOT route remains one of the most tax-efficient and culturally aligned succession options available.

One of the key aspects of whether an EOT is right for you is whether the finances work, which we cover in the next chapter.

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13 THE FINANCIAL ASPECTS

The exiting owner will often want to maximise the amount that she can extract from the business. This does though need to be balanced with affordability for the EOT: balance meaning (1) the extent of time that payments will be made to the outgoing shareholders – when will the last payment be made? (2) the affordability and timing of the periodic payments – will they clash with the timing of anticipated CAPEX (Capital Expenditure), or periodic payments such as for Corporation Tax? (3) Interest, if any on the amounts deferred (4) the affordability of the amount payable on completion to the outgoing shareholders.

Whilst this chapter on Financial Aspects is included at the end of this guide, we believe it is the most important stage of considering an EOT. Often when accepting engagement we set two phases:

Affordability, and then Implementation.

If the numbers do not work for the outgoing shareholders **AND** the EOT **AND** the management team who need to deliver for the benefit of all **AND** HMRC, THEN an EOT is not the right answer.

The process should therefore be for advisors to work with key members in the organisation to produce a model including integrated Profit and Loss Account, Balance Sheet and Cash Flow.

We recommend that this is for the expected payout period plus 18 months, in case problems arise, and should be presented quarter by quarter.

The model should include assumptions so that the effects of remodelling, can be seen, and might include:

What happens if we charge interest (at varying rates) on the deferred amounts?

What happens if we pay out the shareholders over 6 years not 5?

What happens if we increase the amount payable at the start of £X'000's? And if we take on debt to do that at Y% of interest what happens then?

What happens if the shareholders are paid half-yearly rather than annually?

Is the tax payable by the shareholders and the company affordable?

HOW CBSL ACCOUNTANTS SUPPORT YOU

At CBSL, we understand that succession is both a technical and an emotional journey.

We support business owners through every stage of the EOT process, from initial exploration to long-term governance.

Our services include succession planning, independent valuation, financial modelling, HMRC clearance, legal coordination, trustee training, employee communication support, and ongoing governance guidance.

We approach every engagement with warmth, clarity, and a deep respect for the legacy you have built. Our goal is to help you navigate this transition with confidence, clarity, and a sense of partnership.

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