

A Practical Guide to Selling Your Company to an Employee Ownership Trust (EOT)



About The Corporate Finance Network

The CFN was formed in 2007. We are the national brand leader in SME corporate finance in the UK.

Our member firms are recognised as the experts in lower-mid market company buy or sell transactions, typically for owner-managed business clients.

The member firms of The CFN assist SMEs to grow a well-capitalised business, organically or by acquisition.

They encourage business owners to plan for their eventual exit, so they are more sellable and more valuable when the time is right for them to sell their business.

Thanks to those firms which contributed to the findings which support this report.



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Introduction

Employee Ownership Trusts (EOTs) have gradually become a more popular exit route for business owners since they were introduced in 2014.

This guide explains how the model works, when it fits, the steps to complete a transaction, and the key tax and funding considerations.

It should be considered as a possible option, alongside other viable solutions, well ahead of you finally making the decision to exit your business.

What is an EOT?

An EOT is a tax efficient model of employee ownership.

The EOT holds a controlling stake in a trading company on behalf of all qualifying employees. The trust is the shareholder. Individual staff don't buy shares personally.

Day-to-day management remains with a leadership team, while appointed trustees make sure decisions keep faith with the trust's purpose and beneficiaries.

It can keep the business independent, align employees' futures with the company's success, and allows founders to exit in a measured way.



Why owners pick this route

1. **Continuity of culture and brand** - the company stays independent and rooted in its community.
2. **Certainty of exit** - fewer moving parts than a competitive auction with potential trade buyers or a private equity acquisition.
3. **Alternative to an MBO** - when there isn't a Management Buy-Out team in place, but there is a natural leader who can step into that executive role, without wishing to acquire the business personally or take the risk.
4. **Fairness** - the people who contributed to building the business continue to benefit from its future profits.
5. **Tax efficiency** - see the worked example later in this guide.

When an EOT fits well

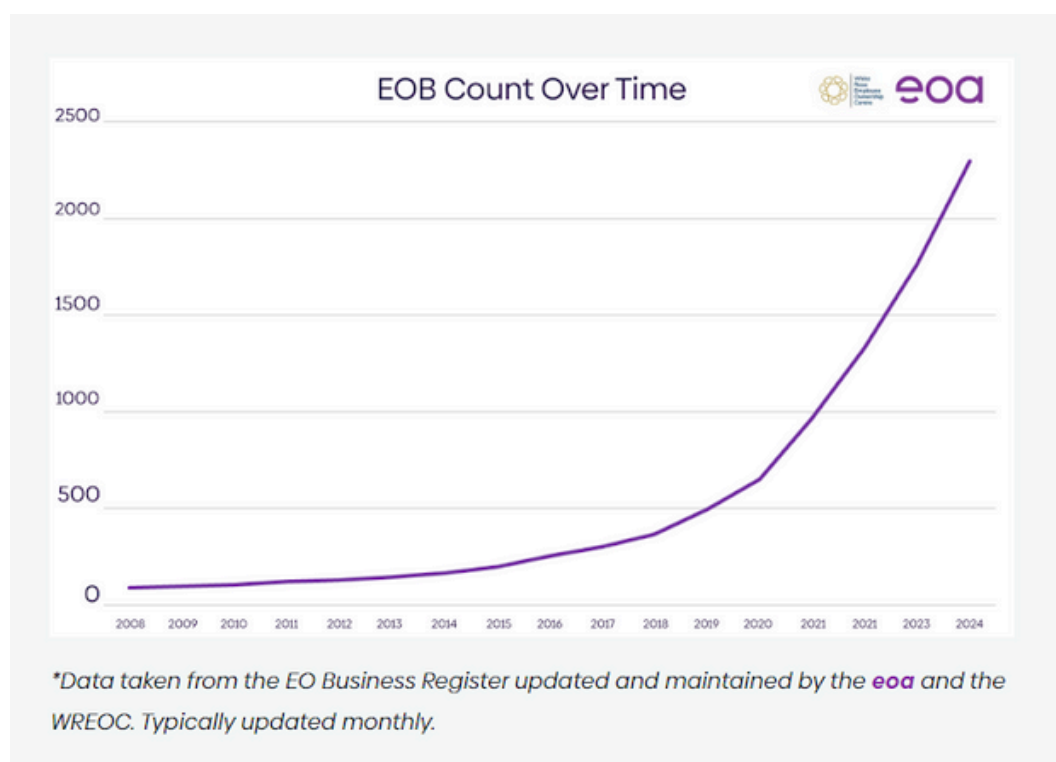
- Good candidates are profitable trading companies with a stable team, predictable cash generation, and a leadership group willing to take the reins.
- To access the headline tax relief, the trust must acquire more than 50% of the ordinary share capital, and all qualifying employees must benefit on broadly equal terms.
- The vendor must hand over the executive running of the company.
- It is important to plan for affordability. In most deals, the purchase price is paid over time from future profits.
- Realistic financial projections, which demonstrate sufficient headroom, will be necessary to encourage a lender to contribute towards funding the acquisition.
- There is unlikely to be the need for future equity investment or a trade sale.



Growth in popularity of EOTs

Since 2014, the number of EOTs has been steadily increasing and by 2024 there were almost 2,500 businesses operating under this model.

Around 500 transitioned in 2024 alone.



Source: <https://employeeownership.co.uk/Site/Site/content/News-and-Insights/Research/Research.aspx>

With the recent rise in Capital Gains Tax rates and the increasing volume of business owners who will require an exit, the number of EOTs is expected to continue to grow.

In 2024 and 2025, the Labour Government implemented some measures to limit the chance of fraudulent transactions and reduced the 100% tax relief to 50%. But on the whole both major parties appear to be supportive of the process and the concept of employee ownership.



The transaction in steps

1. **Feasibility review** - stress test profits, cash conversion, and leadership capacity. Consider alternative exits in parallel.
2. **Independent valuation** - agree a fair market value for the shares, mindful of debt capacity and future investment needs.
3. **Heads of Terms** - as with any transaction, it is sensible to draw up a short document in plain English, outlining the deal, the parties and any requirements for each party, before the lawyers begin drafting the legal documentation.
4. **Obtain HMRC Statutory Clearance** - to ensure HMRC will treat this as a bona fide commercial transaction and grant the Capital Gains Tax relief of 50%, the vendor should obtain Statutory Clearance for Capital Gains Tax under s.138 TCGA 1992. This is typically requested once the Heads of Terms have been signed.
5. **Communication to the team** - this can be confusing and worrying for employees, therefore it helps to use an experienced facilitator, who can also answer any questions from the employees or the new management team.
6. **Trust set-up** - appoint trustees (often a mix of independent, employee and company representatives) and draft the trust deed.
7. **Funding plan** - usually, a vendor loan is used as part of the structure, and this is repaid from profits. The funding plan can also include bank debt or hybrid structures. The company needs to be able to afford the interest and capital repayments, without restricting its ability to trade and grow.
8. **Legal documentation** - a Share Purchase Agreement, including warranties and indemnities which are proportionate, plus other ancillary legal documents.
9. **Implementation** - ongoing employee communications, governance set-up, and management incentivisation (e.g. EMI or growth shares where appropriate). Plus external communications to all stakeholders, customers, suppliers etc.



Funding mechanics

Most EOTs are financed by a vendor loan. The company pays future profits up to the trust, which services the loan to the seller.

Some transactions add a modest senior debt layer from an external lender to accelerate payments.

Covenants will be required by the lender and the company and trust will need to report regularly to ensure the business is maintaining its resilience.

Tax considerations

Subject to meeting the qualifying conditions, sellers can dispose of a controlling interest to an EOT and obtain 50% relief on the Capital Gains Tax (CGT) due.

The company can award tax-free bonuses to qualifying employees each year up to a statutory limit, provided the rules are followed.

Directors' remuneration and any post-sale incentives should remain market-based and properly documented.



Professional governance post-implementation

Clear roles help avoid confusion:

- The board runs the business
- The trustees safeguard the employee beneficiaries.
- Employee representatives provide a voice on the board and the trust.

Often, an employee charter is drawn up. Employee trustees would benefit from training before taking on this role.

Professional trustees are often recruited as they have experience with best practice.

Risks of an EOT and how to manage them

- Over-optimistic valuation at the outset, leading to strain on cash flow in due course. This can be minimised with conservative forecasts and sufficient headroom.
- Weak management teams can struggle to take over the running of the company. Consider whether a transition plan and targeted hires are required.
- Poor employee communication can lead to staff becoming unsettled. Provide clear and transparent updates and meaningful engagement routes throughout the process.
- Professional costs can be greater than a traditional sale. Use experienced accountants and lawyers who understand the EOT approach and the documentation required, to make the process as efficient as possible.



Worked CGT example – for an assumed sale completing on or after 6 April 2026

To illustrate the potential tax effect, here is a simplified comparison. We assume:

- the seller qualifies for Business Asset Disposal Relief (BADR) on the first £1,000,000 of lifetime gains
- the BADR rate is 18% from 6th April 2026
- the CGT Relief for EOTs is 50% from 26th November 2025
- standard CGT on share disposals is 24% for individuals; and the Annual Exempt Amount is £3,000. (See sources at the end)
- Assume in this example that there is a base cost of £500k

Assumption	Non-EOT sale	EOT sale
Proceeds	£5,000,000	£5,000,000
Base Cost	£500,000	£500,000
Gain	£4,500,000	£4,500,000
CGT computation	£1,000,000 x 18% (BADR) = £180,000	50% EOT relief = £2,250,000
	Remaining gain £3,500,000 less annual allowance = £3,497,000	Remaining gain £2,250,000 less annual allowance = £2,247,000
	£3,497,000 x 24% = £839,280 tax	£2,247,000 x 24% = £539,280 tax
	Total CGT = £180,000 + £839,280 = £1,019,280	Total CGT = £539,280

Using these assumptions, selling to an EOT results in approximately £480k less CGT compared to a standard disposal.

Please note: actual outcomes depend on personal allowances, relief availability, timing, and transaction specifics. Please take professional advice to understand your own circumstances.



How accountants can support throughout this process

- **Early stage** – considering this route amongst others, testing affordability, reviewing normalised EBITDA, working capital and the necessary capex needs in order to create the financial projections, approaching debt funders to establish the market's appetite to support the transaction, if necessary.
- **Introductions** to other suitable professionals to support the transaction – lawyers, potential trustees, EOT consultants and independent valuers (an independent valuation is recommended).
- **Mid stage** – tax structuring and eligibility checks, seeking approval from HMRC where required. Design of lending covenants and documentation support, liaising with the lawyers.
- **Post-completion** - trustee reporting, bonus policy design, EMI/growth share schemes, and year-end compliance.

If you would like to discuss this option, please get in touch with your usual contact.



Reference sources

- HMRC: Capital Gains Tax: rates of tax (updates including BADR at 18% from 6 April 2026).
- HMRC: HS275 Business Asset Disposal Relief helpsheet
- HMRC: update to EOT CGT Relief, November 2025
- UK EO Business Register / Employee Ownership Association references to sector size and annual transitions.
- Academic overview: 'Employee ownership trusts' (A. Pendleton, 2025).