

Don't give up on EOT as an exit option because of capital gains tax

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Employee Ownership Trusts (EOTs) have dipped in popularity since the government reduced the associated tax relief, but businesses shouldn't be too hasty to rule it out as an option for their exit strategy.

The change, effective from November 2025, has coincided with a noticeable slowdown in new EOT transitions. Statistics published by the Employee Ownership Association (EOA) show a clear change in momentum when set against the growth seen in earlier years [1].

By way of context, seven years after the regime was introduced, only 576 companies had transitioned to EOT ownership. By 2023, that number had risen to 1,418, and by the end of 2025 it was approaching 2,500 [2]. Tax advantages played a significant role in that growth, and the recent reduction in relief has undoubtedly contributed to the current situation.

That said, the change to EOT relief has not occurred in isolation. It sits between two successive reductions in Business Asset Disposal Relief (BADR), which has materially altered the economics of other exit routes, meaning that the comparative position is more nuanced than the headlines suggest.

It is also worth stepping back from tax mechanics altogether. An EOT can continue to offer meaningful non-tax benefits, which remain particularly relevant for businesses with fewer realistic exit options (professional services firms being a prime example).

Business Asset Disposal Relief (BADR)

BADR is a lifetime capital gains tax relief available on qualifying disposals. Until April 2025, it reduced CGT for higher rate taxpayers from 24% to 10% on the first £1 million of qualifying gains. From April 2025, that rate increased to 14%, and from April 2026 to 18%.

BADR does not apply to disposals to an EOT. However, these changes still matter when comparing the relative economics of a traditional sale against an EOT transaction.

Historically, the contrast was stark: a sale to an EOT was free of CGT, while other exit routes benefited from an initial reduced tax rate. Following the changes, an EOT disposal now results in CGT at an effective rate of 12% for higher rate taxpayers. Viewed alongside the reduction in BADR, however, the outcome is less binary than it would otherwise appear. Other exits have become more expensive at the same time.

While EOTs may no longer look exceptionally generous from a tax perspective alone, they can still be comparatively attractive when the wider landscape is taken into account.

The case for professional services firms

Similarly, the reduction in EOT relief does not remove the underlying appeal of the structure for the right type of business, particularly those with a strong people-led culture, such as professional services firms.

In these businesses (often structured as LLPs), succession typically takes place through the retirement of existing partners and the admission of new partners, rather than through a sale or management buyout. The financial emphasis is therefore on income during ownership, rather than capital realisation at exit. Partners are often numerous and carry out key executive and leadership functions as heads of department and senior advisers.

Requiring those individuals to "exit" entirely as part of a traditional sale can be difficult to achieve in practice and may lead to sub-optimal outcomes.

EOTs remain a viable alternative precisely because of how they are put together. With appropriate pre-sale restructuring (commonly involving the conversion of a partnership into a limited company) an EOT can extend ownership across the wider workforce while allowing senior leaders to remain within the business. Those leaders can stay economically aligned and incentivised through a combination of deferred (tax-efficient) consideration, ongoing remuneration and minority equity participation.

The other benefits of an EOT strategy

Historically, advisers have cautioned against choosing an EOT solely for tax reasons. That remains sound advice. The broader advantages of the model continue to carry weight.

- Employee ownership is a policy driven concept, often valued for its ability to preserve a firm's culture and independence.
- Employees with an indirect ownership stake frequently report higher levels of motivation and engagement. The EOA has found that more than 80% of employee owners feel more motivated after becoming owners.
- Studies suggest employee-owned businesses experience lower absenteeism and stronger engagement overall.
- Research by the University of Stirling indicates that employee-owned businesses are between 8% and 12% more productive, measured by Gross Value Added per employee.
- An EOT can offer a "soft exit" for founders or senior owners who wish to step back gradually while remaining involved.
- Although reduced, a 50% tax relief remains available.

None of this is to say that EOT transactions are straightforward. The structure is highly prescriptive, and relatively minor missteps can jeopardise the tax advantages without careful planning and specialist advice.

However, headlines suggesting that EOTs are no longer a credible exit option following the reduction in relief miss the mark. For many businesses considering succession or exit (particularly those where people, culture and continuity matter) an Employee Ownership Trust may still represent an effective solution.

[1] [Employee ownership boom cools as tax clampdown slows sales to staff](#)

[2] [EO Research: Statistics, Key Insights & Data | eoa](#)

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Editors notes

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