

EOT Reform: Why Governance and Valuation Now Matter More Than Ever

The UK's Employee Ownership Trust (EOT) model, a popular route for business succession, has entered a new era of tighter regulation and greater scrutiny following the October 2024 Budget reforms. Once viewed primarily as a tax-efficient exit path, the EOT framework is now firmly positioned as a governance-led structure demanding transparency, independence, and credible valuation standards.

Greater Governance and Independence

The reforms introduced by HMRC were designed to ensure that EOTs genuinely operate for the benefit of employees rather than serving as vehicles for tax planning. Former owners and connected parties can no longer retain control post-sale, and trusts must include independent trustees and employee representatives. Trustees must also be UK-resident and largely unconnected to the previous ownership group - a significant shift aimed at reinforcing accountability within HMRC's jurisdiction.

Valuation Under the Microscope

One of the most critical developments concerns valuation discipline. HMRC now expects EOT valuations to mirror the rigor of trade-sale transactions. Stretching forecasts, inflated multiples, or missing evidence can lead to a denial of Capital Gains Tax (CGT) relief and penalties. Independent, well-documented valuations - grounded in sector data, adjusted earnings, and clear market comparables - have become essential.

Pull out quote: "Trade-sale-level rigour isn't optional; it's essential."

Tax Reliefs Remain, But Compliance Is Key

The 100% CGT relief for qualifying EOT disposals remains intact, alongside tax-free employee bonuses of up to £3,600. However, HMRC's power to withdraw relief has been extended to four years after a sale, underscoring the need for ongoing compliance. Company contributions to fund the trust have been clarified as non-taxable, easing a long-standing concern for employers.

A Model Maturing in Purpose

The changes reaffirm the government's intent to preserve the integrity of the EOT model, ensuring it promotes genuine employee ownership, not tax arbitrage. With over 1,400 UK firms now employee-owned, up from fewer than 500 in 2018, the sector's growth is a testament to its appeal. Yet as governance and valuation expectations rise, so too does the importance of sound professional advice.

Getting an EOT right is no longer about meeting tax conditions - it's about building credible, resilient ownership for the long term.

Businesses considering an EOT should take time to understand the governance and valuation standards now expected.

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