What Tax Requirements must EOT Trustees Know?

About Employee Ownership Trust (EOT) Tax Obligations

As an EOT trustee, you have specific tax responsibilities to maintain the trust's tax-advantaged status.

Seven Core Tax Requirements

1.Trading Requirement

Company must remain a trading company (≤20% non-trading activities)

2.All-Employee Benefit

Only employees can be beneficiaries (excludes >5% shareholders)

3.Company Interest

Trust must hold >50% of ordinary shares and voting control

4.Limited Participation

Participator/employee ratio must stay ≤2/5

5.Consideration Requirement

Trustees must take "all reasonable steps" to verify consideration doesn't exceed market value

6.Trustee Residence

All trustees must be UK resident as single body of persons

7.Trustee Independence

Less than 50% of trustees can be "excluded participators"

Critical: All seven requirements must be maintained continuously.

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Quick Comparison: Tax Requirements vs Consequences

Requirement	Key Threshold	Consequence if Failed
Trading Company	≤20% non-trading activities	Disqualifying event
All-Employee Benefit	No >5% shareholders as beneficiaries	Disqualifying event
Controlling Interest	>50% ownership maintained	Disqualifying event
Participator Ratio	≤2/5 ratio of participators/ employess	Disqualifying event
Consideration Verification	"All reasonable steps" to verify value	No CGT relief available
Trustee Residence	Trust must be UK resident	Disqualifying event + Exit charge
Trustee Independence	<50% excluded participators	Disqualifying event
Tax-Free Bonuses	£3,600 per employee per year	Disqualifying event

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Disqualifying Events - Critical Tax Consequences

Extended Clawback Period: For sales from 30 October 2024, relief can be withdrawn for 4 tax years after disposal to EOT.

Within 4 Tax Years: Original vendor shareholders lose CGT relief (extended from 1 year)
After 4 Tax Years: Trustees face deemed disposal at market value, creating potential CGT liability with original low base cost

The CGT charge can be devastating as trustees' base cost is often nominal.

UK residence failures trigger both disqualifying events AND section 80 exit charges.

High-Risk Scenarios

Situations to Monitor:

- Company invests surplus profits substantially in non-trade activities
- Sale of the trading business
- Disposal of trust's shares in company
- New shareholders acquiring >5% stakes
- Trustee resignation without replacement and residence (independence risk)
- Acquisition without proper valuation verification
- Bonus payments exceeding equality rules

Tax Monitoring (Enhanced Requirements)

Regular Review Items:

- Company trading vs investment activity ratios
- Employee headcount and new joiners/leavers
- Trustee composition and independence status
- UK residence status of all trustees
- Any new shareholdings or equity arrangements
- Distributions relief available for acquisition costs

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Professional Guidance Essential

Penalties for non-compliance are severe and can include both disqualifying events and additional exit charges. Professional tax and legal advice is now more critical than ever.

This factsheet provides general guidance only and should not be relied upon as specific tax advice for your circumstances.

Get in Touch

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As a member of the ICAEW and CIOT Nick specialises in technical corporate tax planning and company reorganisations advising on a variety of projects from mergers and acquisitions to company incorporation, management buyouts and demergers. Nick is a regular writer for various tax journals with articles published in Taxaction, Tax Advisor and ICAEW Taxline. Presenting regular lectures to fellow professionals through various CPD providers including MBL, CPDStore and a variety of CIOT branches.

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Pete began his career with the Inland Revenue in 1988 with roles in tax districts in Birmingham and London before spending several years in head office, culminating as the Inland Revenue's expert on the rules for company distributions and advance corporation tax. Since going into private practice 25 years ago, Pete has worked for Big 4 firms and run his own business for 11 years, advising a wide range of clients from owner managed businesses to the largest corporate groups. Pete is Chair of the CIOT's Owner Managed Business Tax Technical Committee, as well as being a member of the Tax Policy and Oversight Committee and of the Education Committee.

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