



Employee Ownership
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Submission to House of Representatives on Petition EN7712 – entitled “ATO to provide Tax Guidelines for Employee Owned Trusts” calling for the introduction of legislation to support and develop Employee Ownership Trusts (EOTs) in Australia

Employee Ownership Australia

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About Employee Ownership Australia

Employee Ownership Australia (EOA) is a not-for-profit organisation dedicated to the development and promotion of employee ownership across Australia.

EOA does not develop or market financial products and does not benefit commercially from the implementation of employee ownership structures.

Our mission is to see the expansion of employee ownership in all its forms, including Employee Ownership Trusts (EOTs), as a means of delivering economic and social benefits to employees, businesses, and the broader Australian community.

EOA believes that the development of employee ownership trusts in Australia can provide significant economic benefits to the Australian population by giving employees greater control over their working lives and sharing the financial benefits of enterprise with them. EOTs also facilitate business continuity when business owners wish to exit.

This would best be achieved through legislative recognition of the EOT structure. Such recognition can be implemented without compromising tax integrity, simply by ensuring that the arrangements operate in a way that does not disadvantage participants. EOA welcomes the opportunity to provide additional information and support to policymakers in this area.

Submission to House of Representatives on petition calling for the introduction of legislation to support and develop Employee Ownership Trusts (EOTs) in Australia

Executive summary

Australia is missing out. The employee ownership trust (EOT) business ownership model is a phenomenal success in the UK with around 2,500 EOTs created since 2014, employing 358,000 workers.

The UK government has provided regulatory support for EOTs throughout the UK since 2014. It is a model also being actively promoted by the governments of Northern Ireland, Scotland and Wales. The UK success has prompted Canada, Denmark and Slovenia to introduce legislation to support EOTs. Ireland is considering the same.

Australia should be part of this international phenomenon, but it is not.

The EOT is a model of employee ownership with significant proven benefits for a business, its employees, local communities and, at scale, for economies. It is a way of achieving a wide-range of public policy aims including increasing productivity and reducing inequality.

In particular, an EOT works exceptionally well as a business succession solution. By selling their company to an EOT former owners keep jobs and skills local and maintain a company's independence and ethos.

It is legally possible to establish and operate an EOT in Australia but there are significant uncertainties over the tax aspects of financing an EOT and a lack of awareness of this model in the business community. This stops businesses converting to EOT ownership.

The solution is to recognize the EOT model in tax law. In the UK this has removed tax uncertainties, educated the business community and raised awareness of EOTs as a business succession solution. Focused tax incentives will accelerate take-up. One business a day converts to EOT ownership in the UK.

This solution can be implemented relatively quickly. There is no need for research into the benefits of the EOT model. The last two government research projects, in Northern Ireland and Ireland, both concluded their respective governments should support EOTs from a policy point of view. We are confident official research in Australia would reach the same conclusion.

The response to the petition should be that the Australian Government supports employee ownership and will take the necessary regulatory and non-regulatory measures to enable EOTs as a business succession solution, including the Australian Taxation Office publishing guidance on their tax treatment.

1. Introduction: Why Australia Needs a Legislative Framework for Employee Ownership Trusts

This submission is made by Employee Ownership Australia in support of the petition lodged with the House of Representatives calling for the introduction of legislation to support and develop Employee Ownership Trusts (EOTs) in Australia.

It is the Petition EN7712 – entitled “ATO to provide Tax Guidelines for Employee Owned Trusts” which has been determined by the Petitions Committee and certified as meeting the requirements for petitions. It has been presented to the House on 27 October 2025 and has been referred to the Treasurer.

At its simplest, the EOT model represents a transformative approach to business ownership, one that aligns economic participation with productivity, community resilience, and equitable wealth distribution.

The purpose of this submission is to outline the principles, benefits, and legislative requirements for EOTs, drawing on international experience—particularly the United Kingdom—and the growing body of research, which demonstrates both the broad economic and social value of employee ownership and why EOTs are attractive as a succession vehicle¹.

This submission summarises the key regulatory changes that are needed. Namely:

- Provide legal certainty around the structure and operation of EOTs;
- Clarify tax treatment for founders, businesses, and employees.

2. Core Principles of Employee Ownership Trusts: Collective Benefit and Simplicity

At its heart, an EOT is a collective ownership structure that enables employees to:

- Participate in the economic rewards of the business through profit-sharing and dividends;
- Engage in the governance of the enterprise, often through representative mechanisms;
- Benefit from long-term business continuity, without the need to personally invest capital or acquire shares individually.

EOTs typically involve the exiting owner receiving their consideration in stages financed by future profits. This means that external finance is generally not required to achieve the conversion. UK evidence finds that exiting owners accept deferred consideration for the sale of

¹ See A. Pendleton and A. Robinson (2025) ‘Employee ownership trusts: an employee ownership success story’ *International Review of Applied Economics*, 39: 241-260. Access at <https://doi.org/10.1080/02692171.2025.2475136> See also A. Pendleton (2021) ‘Solving succession woes with Employee Ownership Trusts’. *UNSW Business Think*. <https://www.buinessthink.unsw.edu.au/articles/solving-succession-woes-employee-ownership-trusts>

their businesses to an EOT in 89 per cent of cases².

Unlike traditional employee share schemes, which rely on complex individual allocations of shares, EOTs operate through a trust that holds a significant interest in the business on behalf of all current and future employees. This ensures:

- **Inclusivity:** All employees benefit, not just those with the means to purchase shares.
- **Simplicity:** The trust structure avoids the administrative and legal complexity of individual shareholdings.
- **Stability:** The business remains independent and focused on long-term value creation.

3. Why Australia Needs Legislative Reform: Removing Barriers to Adoption

Despite the clear benefits, the adoption of EOTs in Australia has been limited due to the absence of a dedicated legislative framework.

Under current law, establishing an EOT requires navigating a complex web of trust law, corporate regulation and, especially, tax provisions. This creates uncertainty and deters both business owners and advisors from pursuing this model.

A clearer legislative framework would:

- Provide legal certainty around the structure and operation of EOTs;
- Clarify tax treatment for founders, businesses, and employees;
- Educate the business community and make best practice clear
- Encourage uptake by reducing compliance costs and perceived risks;
- Signal government support for inclusive and sustainable business models.

4. Business Succession and the Baby Boomer Transition

Australia is on the cusp of a significant intergenerational transfer of business ownership. Baby boomers own a substantial proportion of the country's 2.3 million small and medium enterprises (SMEs), many of which are unlisted private companies. As these owners retire, the lack of viable succession options threatens the closure or sale of otherwise viable businesses.

EOTs offer a structured, values-aligned exit pathway for founders who wish to preserve their legacy, reward their employees, and maintain the independence of their enterprise. The UK research has clearly shown that EOTs provide an attractive succession vehicle that surmounts the traditional obstacles (e.g. lack of finance) to employee ownership³.

² See Pendleton and Robinson, *op. cit.*

³ See Pendleton and Robinson, *op.cit.* Pendleton, *op. cit.*

5. Sectoral Relevance: Addressing Pressing Challenges in Key Industries

The benefits of EOTs are not confined to any one sector. However, they are particularly well-suited to industries currently under stress in Australia, including:

Care sector

- **Aged Care:** Where continuity of care, staff retention, and community trust are paramount. See examples from the UK in domiciliary and aged care⁴
- **Child Care:** Where employee engagement directly impacts quality of service and outcomes (see the EOA submission to NSW inquiry on childcare).

Agriculture and Regional Enterprises

- **Farms, rural supply stores, and agricultural services** are at risk, especially in regional areas where succession options are limited.

Manufacturing and Light Industry

- **Small-scale fabrication, metalworking, and niche manufacturing** businesses often have highly specialised knowledge held by the owner. The EOT facilitates continuing ex-owner involvement unlike trade sales or sales to private equity: UK research finds that ex-owners maintain some connection with the business after conversion to EOTs in 81 per cent of cases⁵.

Regional services

- **Regional Medical and Dental Services:** Where succession challenges threaten access to essential services.

In these sectors and industries, EOTs can help retain ownership, empower staff, and ensure service continuity in communities that are otherwise vulnerable to economic centralisation or service withdrawal.

⁴ <https://employeeownership.co.uk/Site/content/All-About-EO/Case-Studies/be-caring.aspx>

<https://employeeownership.co.uk/Site/content/All-About-EO/Case-Studies/shaw-healthcare.aspx>

⁵ Pendleton and Robinson, *op.cit.* p. 245

6. Legislative Design: A Framework to Enable Employee Ownership Trusts in Australia

The introduction of a legislative framework for Employee Ownership Trusts (EOTs) in Australia is essential to unlock the full potential of this model. While EOTs have been successfully implemented in the United Kingdom and are gaining traction globally, their adoption in Australia has been constrained by the absence of specific enabling legislation and clear guidance from the Australian Taxation Office (ATO).

Under the current legal framework, the implementation of an EOT requires navigating a complex and uncertain landscape. A range of provisions must be considered and satisfied — including those relating to trust taxation, employee share schemes, capital gains tax, and Division 7A — making the structure difficult and costly to implement. This complexity has created a significant barrier to entry, particularly for small and medium-sized enterprises (SMEs) that would otherwise benefit most from employee ownership.

To address these challenges, we propose the following clarifications to existing tax law. In many cases, these would require formal clarification by the ATO rather than amendments to existing legislation and should therefore be relatively straightforward to implement.

The development of EOTs will benefit from legislative measures:

a. Legislative Recognition of Employee Ownership Trusts

- Introduce a statutory definition and framework for EOTs, modelled on successful international precedents, particularly the UK's Finance Act 2014.
- Ensure that the EOT is recognised as a distinct and legitimate business structure, with clear rules governing its formation, operation, and purpose.
- Require that the EOT holds a controlling interest in the operating company and operates for the benefit of all employees collectively, without individual share allocations.

b. Tax Treatment of Founders and Business Contributions

- Ensure that founders are not subject to tax disadvantages when selling their interest in a private enterprise to an EOT. This is to ensure that founders can access the existing Capital Gains Tax (CGT) concessions. In particular, for the small business rollover relief.
- Ensure the existing Capital Gains Tax (CGT) rollover relief or exemption is available for qualifying transfers to EOTs, to facilitate succession without penalising founders.
- Allow the operating business to fund or assist in funding the EOT's acquisition of shares without triggering adverse tax consequences (e.g., Division 7A or non-deductibility of contributions).
- Provide flexibility in funding arrangements, including vendor finance, deferred consideration, or business-supported acquisition structures.

c. Employee Participation and Economic Benefit

- Ensure that employees can fully participate in the economic benefits of ownership through the trust, including the right to receive dividends or profit distributions from the operating company.
- Confirm that such benefits are not subject to adverse tax treatment, such as being deemed fringe benefits or unfranked dividends.
- Provide for annual tax-free benefits to employees (e.g., up to \$1,000 per annum), consistent with the treatment of allocated share plans under existing tax law.

d. Alignment with Existing Tax Integrity Principles

- Ensure that the EOT regime is not reliant on tax arbitrage or artificial structuring, but rather grounded in the underlying economic and social benefits of employee ownership.
- Maintain the integrity of the tax system by embedding appropriate safeguards and ensuring that benefits are equitably distributed among employees.
- Provide clear and binding ATO guidance on the application of existing tax provisions to EOTs, including CGT, Division 7A, and employee benefit taxation.

7. Additional matters for consideration

It might be possible to examine additional matters to promote and develop the regime. While these are measures, we consider would be appropriate we believe the regime could be introduced without, but they would significantly improve the adoption of the regime with its attendant benefits.

a. Expansion of Existing Concessions

- Consider extending the small business CGT concessions (Subdivision 152) to apply to an expanded range of disposals to EOTs, particularly where the underlying business itself meets the existing eligibility criteria.
- This would provide a strong incentive for founders to consider employee ownership as a succession pathway, particularly in sectors where external buyers are limited or inappropriate.

b. Employee Participation and Economic Benefit

- Provide for annual tax-free benefits to employees (e.g., up to \$1,000 per annum), consistent with the treatment of allocated share plans under existing tax law. Under the existing tax rules allocated shares may be provided to employees up to a value of \$1000. The bonus proposal seeks to replicate that outcome. The same approach was adopted in the UK where equivalent exemptions existed. We propose it would be subject to the same prudential protection as exist for the \$1000 share plan, particularly the non-discrimination element. UK evidence finds that

around two-thirds of EOTs pay a profit share to employees shortly after conversion, and that the average profit share is £2780 (i.e. approx. \$5,500).⁶

8. Supporting Measures: Institutional and Regulatory Enablers

To support the successful roll-out of EOTs, the following complementary measures are recommended:

- Establish a dedicated Employee Ownership Unit within government to promote, educate, and support EOT adoption, noting that previous parliamentary reviews have called for public awareness programs and the publication of more data on employee ownership.⁷;
- Implement concessional ASIC fees for companies limited by guarantee acting as EOT trustees;
- Amend the Fair Entitlements Guarantee (FEG) to ensure employee selected directors are not excluded from protection in insolvency scenarios;
- Develop ATO guidance to clarify the application of existing tax laws to EOTs.

9. Conclusion: A Sustainable Framework

The introduction of EOTs in Australia is not about tax arbitrage or short-term incentives. It is about embedding a long-term, values-based ownership model that aligns the interests of employees, businesses, and communities.

We urge the House of Representatives to act on this opportunity to legislate for EOTs, drawing on international best practice and adapting it to the Australian context. With the right framework, EOTs can become a mainstream option for business succession, employee empowerment, and economic resilience.

⁶ Pendleton and Robinson, *op.cit.*, p.254

⁷House of Representatives Standing Committee on Tax and Revenue (2021) *Owning a Share of Your Work: Tax Treatment of Employee Share Schemes*".

Annexure 1. Global Precedents: International Models of Employee Ownership Trusts

The success of Employee Ownership Trusts (EOTs) in other jurisdictions provides valuable insights for the development of a robust framework in Australia. Several countries have implemented EOT models with varying legislative and policy approaches, each offering lessons for effective design and implementation.

****United Kingdom****

The UK introduced its EOT model through the Finance Act 2014, following the recommendations of the Nuttall Review, conducted for the UK Government⁸. Employee ownership has all-party support, and the Labour Government has strengthened the regulatory support originally introduced by the Conservative-Liberal Democrat Coalition. The Governments of Northern Ireland, Scotland and Wales have each introduced official policies and established or funded teams to support the EOT model. The UK EOT structure allows business owners to sell a controlling interest (over 50%) to a trust that holds shares on behalf of all employees. Key features include:

- Capital Gains Tax (CGT) relief for business owners selling to an EOT.
- Income tax exemption on annual bonuses of up to £3,600 per employee.
- Requirements that the trust benefits all employees on equal terms.
- A growing sector, with around 2,500 EOT-owned businesses towards the end of 2025, including well-known firms such as Richer Sounds and Riverford Organics.

Although most EOTs have under 100 employees, the EOT structure is equally useable by firms with several thousand employees⁹.

****United States****

In the US, the Employee Stock Ownership Plan (ESOP) has been a long-standing model for employee ownership. While structurally different from EOTs, ESOPs share the goal of broad-based employee ownership. Key features include:

- Tax incentives for owners selling to an ESOP.
- Ability for companies to borrow funds to finance the purchase of shares.

⁸ G. Nuttall (2013) *The Nuttall Review of Employee Ownership*. London: HM Government Department of Business, Innovation, and Skills

⁹ Pendleton and Robinson, *op.cit.* p.248

- Significant prevalence, with over 6,000 ESOPs covering more than 14 million employees.
- Research indicates ESOPs improve employee retention, productivity, and retirement security¹⁰.

Despite the success of the ESOP, there is growing interest in the EOT (often referred to as a ‘for-purpose trust’) in the US¹¹.

****Other Jurisdictions****

- **Canada:**

The federal government has introduced legislation to provide tax deferral mechanisms and support for business succession for an EOT model. As a result, businesses in Canada are starting to adopt the EOT model.

- **Ireland:**

The Irish government has been recommended by its official researcher, Indecon, to introduce UK-style EOT legislation¹². All the main opposition parties in Ireland support employee ownership. (The Northern Ireland Department for the Economy has also published research supporting EOTs.)¹³

- **Slovenia:**

Slovenia introduced its equivalent of the EOT on 23 October 2025. Slovenia does not have trust law and so has created its own collective ownership model in the ‘Employee Ownership Cooperative Act 2025’.

- **Denmark:**

Denmark likewise does not have trust law and its legislation to create the equivalent of the EOT takes effect in January 2026.

These international examples demonstrate that with the right legislative and policy support, EOTs can become a mainstream and effective mechanism for business succession, employee engagement, and economic resilience. Australia has the opportunity to learn from these models and tailor a framework that reflects its unique economic and legal context.

¹⁰ See <https://www.nceo.org/research/research-findings-on-employee-ownership>

¹¹ See <https://www.aspeninstitute.org/blog-posts/the-emergence-of-employee-ownership-trusts-in-the-us/>

¹² 19 July 2024, ‘[Indecon Review of the Taxation of Share-Based Remuneration](#)’ Report to Department for Finance, Ireland (Indecon International Research Economists)

¹³ August 2024, Research Bulletin 24/1 ‘[The Employee Ownership Model in Northern Ireland](#)’, Department for the Economy, Northern Ireland

Annexure 2. Case Studies: Lessons from the UK Experience

The United Kingdom has been a global leader in the adoption and implementation of Employee Ownership Trusts (EOTs), offering a wealth of practical examples that demonstrate the model's effectiveness across diverse sectors. Two particularly illustrative case studies are Richer Sounds and Riverford Organic Farmers.

****Richer Sounds****

Richer Sounds, a well-known UK retailer specializing in audio and visual equipment with nearly 500 employees, transitioned to an EOT structure in 2019. Founder Julian Richer transferred 60% of his shares to an Employee Ownership Trust, motivated by a desire to preserve the company's culture and reward the employees who had contributed to its success. Each employee received a £1,000 bonus for every year of service as part of the transition.

The outcomes of the transition were significant:

- Employee satisfaction increased from 77% to 96%.
- Customer Net Promoter Score rose from 74 to 89.
- Staff retention improved from 81% to 94%.
- Annual profit growth increased from 4.2% to 12.8%.

These results underscore the positive impact of employee ownership on business performance, employee engagement, and customer satisfaction. Richer Sounds' experience demonstrates how EOTs can serve as a powerful tool for succession planning while reinforcing a company's values and long-term vision.

****Riverford Organic Farmers****

Riverford Organic Farmers, a leading organic food delivery company with over 1,000 employees, became employee-owned in 2018 when founder Guy Singh-Watson transferred a controlling interest to an EOT. By 2023, the company became 100% employee-owned. Singh-Watson's decision was driven by a commitment to preserving the company's ethical values, independence, and long-term sustainability.

Key motivations and outcomes included:

- Ensuring the business remained independent and aligned with its founding principles.
- Empowering employees through collective ownership and governance participation.
- Enhancing business resilience and continuity in the face of succession challenges.
- Maintaining high levels of employee morale and productivity.

Riverford's transition was not only a change in ownership but a cultural transformation that embedded shared purpose and long-term stewardship into the company's DNA. The company

has since achieved B Corporation certification and continues to be recognized as one of the UK's best employers.

****Relevance to Australia****

These UK case studies offer valuable lessons for Australia.

They clearly demonstrate that EOTs can:

- Provide a viable and values-aligned succession pathway for founders.
- Enhance employee engagement, retention, and productivity.
- Preserve business independence and community ties.
- Operate successfully across sectors, including retail and agriculture.

By adopting a legislative framework that supports EOTs, Australia can replicate these successes and foster a more inclusive, resilient, and sustainable business landscape.

Annexure 3: Governance in UK EOTs – Structures, Roles, and Best Practices

Governance in UK Employee Ownership Trusts (EOTs) is structured to enable employees have a meaningful voice in the strategic direction and oversight of the business, while maintaining effective operational management. The governance model typically includes four interconnected levels:

1. **Trust Board:**

- Provides strategic oversight and ensures the business is run in the best interests of all employees.
- Composed of trustees, which may include independent trustees, employee representatives, and sometimes founders. Founders are often trustees (at least for the early years after conversion), though recent regulatory changes in the UK have limited the proportion of trustees who are founders or their associates. In 78 percent of cases employees are represented on the trust board, and they form the majority of trustees in 26 percent of EOTs.¹⁴
- Responsible for compliance with the trust deed and legal obligations, and for monitoring company performance.

2. **Corporate Board:**

- Retains responsibility for the day-to-day management and strategic decision-making of the business.
- Typically includes executive directors (e.g., CEO, CFO), non-executive directors, and employee representatives in 53 percent of cases.¹⁵
- Works in alignment with the EOT's purpose and values.

3. **Employee Forum:**

- Serves as a structured mechanism for employee voice and engagement.
- Composed of elected employee representatives who gather feedback and communicate with the Trust Board and Corporate Board.
- Enhances transparency and ensures that employee perspectives are considered in governance.

4. **Management Team:**

- Handles the implementation of business strategy and oversees daily operations.
- Works under the direction of the Corporate Board and in alignment with the values of employee ownership.

¹⁴ Pendleton and Robinson, *op.cit.* p. 255

¹⁵ Pendleton and Robinson, *op.cit.* p.256

Key Governance Principles:

- **Transparency:** Regular communication with employees about business performance and trust activities, that is more regular and extensive than in non-EOT firms¹⁶
- **Employee Voice:** Institutionalized mechanisms for employee input and representation.
- **Long-Term Sustainability:** Focus on preserving the business for future generations, with an emphasis on resilience and inclusive growth.
- **Compliance and Integrity:** Adherence to legal and tax obligations, with regular reviews and updates to governance practices.
- **Cultural Alignment:** Fostering a culture of shared responsibility, collaboration, and mutual respect.

This governance framework ensures that EOT-owned businesses in the UK are not only compliant with legal requirements but also embody the principles of inclusive and participatory ownership. It provides a model that Australia can adapt to support the successful implementation of EOTs in a local context.

¹⁶ See <https://employeeownership.co.uk/Site/content/News-and-Insights/EO-Knowledge-Programme/EO-Knowledge-Programme-findings.aspx>

Annexure 4: UK EOT Growth and Sectoral Performance

The UK Employee Ownership Business Register (produced by the Employee Ownership Association and White Rose Employee Ownership Centre) finds the following: ¹⁷

- The number of Employee Ownership Trusts (EOTs) in the UK has grown from just 19 in 2018 to over 2,470 by mid-2025, representing a staggering 13,000% increase in less than a decade.
- In 2024 alone, 560 businesses transitioned to employee ownership, reflecting the accelerating momentum of the EOT model.
- As of 2025, approximately 358,000 individuals are employed in employee-owned businesses (EOBs) across the UK.
- Sectoral composition of EOBs includes:
 - 28% in Professional, Scientific, and Technical Activities
 - 15% in Manufacturing
 - 14% in Construction
 - 14% in Administrative and Support Services
 - 11% in Wholesale and Retail Trade
- The Construction sector has experienced the most dramatic growth, with a 6,580% increase in employee-owned businesses between 2014 and 2025.
- Employee-owned businesses (EOBs) are 8–12% more productive than their non-employee-owned counterparts, based on Gross Value Added per employee.
- EOBs are 25% more likely to report increased profitability compared to non-EOBs.
- Collectively, EOBs contribute approximately £30 billion annually to the UK economy.
- EOBs have demonstrated 40% greater resilience during economic downturns, recovering more quickly and maintaining employment levels more effectively than traditionally owned firms.

¹⁷ <https://employeeownership.co.uk/Site/Site/content/News-and-Insights/Research/Research.aspx?hkey=1c415376-cfbd-46a6-89c6-6e5904622c7c>