NCEO | NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

EOT Myths: Common Misconceptions and Realities

This resource addresses common myths and misconceptions about employee ownership trusts (EOTs) and perpetual purpose trusts (PPTs), covering legal frameworks, transaction structures, ownership mechanics, and governance practices.

The checklist was first used at the EOT Workshop at the 2025 NCEO Forum by presenters Meg Anderson, Nicolas Sasso, and Jason Wiener. It was further developed by the NCEO EOT Peer Network on November 13, 2025. This resource will be continuously updated and expanded for the NCEO's EOT resource library. To propose other misconceptions and realities, please reach out to us at education@nceo.org.

Legal & Global Landscape

This section addresses misconceptions about the legal feasibility and regulatory environment for EOTs and PPTs in the US.

Myth	Reality
EOTs/PPTs are only available in the UK.	The EOT model started in the UK and has expanded to Canada and the US. EOTs in the UK and Canada have been granted significant tax advantages, somewhat like US ESOPs. EOTs in the US do not have these advantages, but the legal structure of the trusts is similar.
State laws prevent the use of perpetual trusts in the US.	State laws on perpetuity are manageable or favorable in many jurisdictions. If your state laws are unfavorable, you can incorporate the trust in a state where they are but continue to operate in your own state.
An EOT transition involves a long, expensive, and complex regulatory filing process with the IRS and oversight by the IRS and the Department of Labor (DOL), just like an ESOP.	EOTs do not involve IRS or DOL oversight or ERISA, making the regulatory and compliance burden significantly lighter.
An EOT can be very complex to operate.	EOTs are less complex than ESOPs in a regulatory sense. There are less players involved in the setup than with an ESOP. That said, EOTs come in many flavors and they are overwhelmingly flexible in terms of design. EOTs can be made simple or complex. Getting the balance right is a complex endeavor. EOTs come with unknown tax treatment, so careful planning with a skilled advisor is important to turn complexity into choice.

Transaction & Value

This section clarifies how EOT transactions are structured to ensure owners receive a fair price for their business interests.

Myth	Reality
The owner has to accept a reduced price or effectively donate their shares (like the Patagonia model).	You can be paid fair market value for your stake in the company.
EOTs only work for large, established companies with significant enterprise value.	EOTs can work for companies of various sizes. While there are practical considerations around transaction costs and debt serviceability, companies with as few as 10–20 employees have successfully transitioned to EOT ownership.
You cannot get bank financing for the deal.	There are now funds that cater to employee ownership trusts, although most EOTs are financed entirely or primarily through seller notes.
Sellers must accept deferred payment over many years with no security.	Seller notes do involve risk. The company must generate sufficient cash flow to pay off the note over time. While some upfront payment may be possible if the company has existing cash reserves, most EOT transactions are financed primarily through seller notes. The seller's security is the company's future performance and the shares themselves, which the seller already owns. This is essentially a redemption of shares back to the company.
Without the benefit of tax exemption for ESOPs, there isn't enough cash flow to service the debt created by the transaction.	There are no tax incentives or benefits for EOT transactions. EOTs are more cash flow sensitive than ESOPs. Talk to a trusted advisor to gauge feasibility.
EOT transactions take significantly longer than traditional sales.	EOT transactions can be completed in as little as 3–6 months, comparable or faster than most traditional M&A deals, and without the extensive DOL regulatory process required for ESOPs. Selling to another buyer typically takes several months or more and involves contingencies on the sale price.
Once you sell to an EOT, you must immediately exit the business.	Many selling owners remain involved in leadership or advisory roles during and after the transition, providing continuity while the EOT ownership structure matures.
You will do better financially selling to another buyer.	That can be true in some cases, but keep in mind that most sales involve contingencies (such as part of the price being paid based on earnouts) that may make the deal less favorable than it seems.

Structure & Mechanics

This section describes the foundational legal and financial mechanisms of the EOT, clarifying how ownership is collectively held.

Myth	Reality
EOTs require employees to buy shares, and they must track an annual valuation, like an ESOP, with repurchase obligations.	Shares are held collectively in the trust; employees do not buy in and do not have individual share accounts or related repurchase obligations.
The EOT must have a controlling stake (51% or more).	EOTs can be structured with any percentage of ownership. The EOT of the largest EOT-owned company in the US owns 30% of that company.
Employee-owner distributions work the same way as ESOP distributions.	Distribution structures in EOTs are flexible. The trust must service the debt first, then profits can be distributed according to the company's chosen formula and timeline.
It’s all really complicated.	Find a competent service provider who has done this many times. It’s actually simple enough with a good guide.

Culture & Governance

This section covers who runs the company, how governance decisions are made, and how to successfully foster a lasting ownership culture.

Myth	Reality
People automatically will think like an owner once the transaction is completed.	You should work on developing a culture of ownership before you do the transaction so that your co-owners understand what it means to think like an owner, focusing on financial literacy, open book management, team-based decision making, etc.
Employee-owners will receive significant distributions in their first couple of years.	You need a good communications plan to set the expectations and help employees understand there is a note to pay off, how much they can control, how decisions are made, where liability sits, etc.
EOT companies must immediately adopt a highly democratic structure with employee representatives on the main corporate board.	The governance structure for EOTs is highly flexible. The company can choose the best way to include employee voice, such as advisory councils, board observers, or other engagement mechanisms.
The trust steward committee (TSC) controls the day-to-day management of the business.	The leadership team and the board of directors manage the business; the trustees focus on the long-term stewardship of the trust's purpose.
The new employee-owners have a say in everything that happens in the business.	Management structures and decision-making structure remain largely or fully unchanged. Clear communication about governance roles helps employees understand that becoming an employee-owner doesn't change their day-to-day responsibilities or decision-making role.
The TSC must be set up before the transaction is complete.	You do not need a TSC to convert to an EOT, but most consider it best practice to develop one over time.