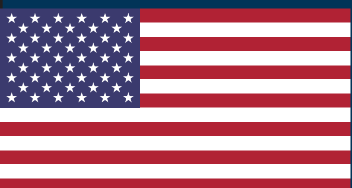
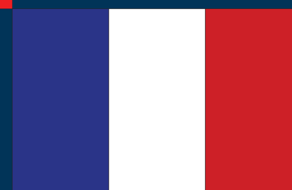
EXPANDING Employee Ownership

Models in the US, UK, Canada, France, and Slovenia

Corey Rosen, Graeme Nuttall, Jon Shell, Thibault Mirabel, and Tej Gonza





NCEO NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

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INTRODUCTION

Corey Rosen

There is a compelling argument for expanding broad-based employee ownership. The US and UK have the longest history with employee ownership programs operating under a specific legislative framework providing significant tax benefits. Research on these models in the two countries shows that employees, companies, and societies do much better than is the case for conventionally owned companies.[1] Employee ownership has also been one of the rare issues that political leaders with otherwise very differing views can agree on. In the United States, for instance, legislation to promote employee stock ownership plans (ESOPs) has passed with virtually unanimous support at both the federal and state levels. That includes 18 pieces of legislation passed by the US Congress since 1974, most recently in 2022. When the legislation to provide a statutory framework and tax incentives for employee ownership trusts (EOTs) in the United Kingdom was passed in 2014, all three political parties at the time had endorsed it. Legislation in Canada was passed in 2024. The governing Liberals brought the bill up, the proposal was in the Conservative Party's 2021 platform, and the National Democratic Party supported it. Legislation is pending in Slovenia and is highly likely to become law, again with widespread support. In France, employee ownership is part of broader legislation that requires companies with more than 50 employees to provide some form of profit sharing. That has also been widely popular.

This rare combination of a policy that can have a dramatic impact on the structure of wealth in society while also being politically feasible suggests that other countries should seriously consider this idea.

This paper looks at five different models for how countries can encourage employee ownership. These models were chosen because they are the only instances of national-level legislation specifically designed to encourage broad-based employee ownership. As this paper indicates, there are commonalities between the countries, most notably that all of the plans operate through a trust that holds the shares for the benefit of employees. This has been a key lesson for employee ownership from the experience of many other countries that have tried to encourage the idea. For instance, the UK, several other European countries, Japan, Korea, and the US all have programs that provide tax incentives for employees to purchase shares in their companies, generally companies that are listed on stock exchanges. These programs have been taken up only by a minority of employees, typically between about 20% to 30% of the workforce. As might be expected, this has skewed toward higher-income employees. The total percentage of any given company owned through one of these arrangements is almost invariably well under 5%. Russia and Eastern European countries tried to sell off state-owned enterprises through employees buying shares, often at a very low value. This resulted in a large number of majority employee-owned companies, but because the employees were allowed to sell their stock soon after purchasing it, the companies quickly devolved to concentrated ownership, including by oligarchs in Russia.

> *One key lesson from this experience is that if employees hold shares individually, they are likely to sell them after a relatively short time unless there are significant tax disincentives to do otherwise.*

1. For studies on the US, see What the Research Says: The Impact of Employee Ownership on the National Center for Employee Ownership's website. For research on the United Kingdom, see The Rise of Employee Ownership in the UK – Key Stats and Trends from EOT.co.uk.

One key lesson from this experience is that if employees hold shares individually, they are likely to sell them after a relatively short time unless there are significant tax disincentives to do otherwise. Ownership will rarely be taken up by a majority of the workforce, particularly less highly compensated employees. It is also extremely difficult for employees to achieve ownership of a substantial portion or all of the company. In contrast, structuring the ownership through a trust means that shares can be held collectively for the benefit of all or most of the participants in the plan for the long term.

A second key lesson is that for employee ownership to grow at scale, there must be tax incentives for company owners to transfer ownership to employees. These incentives have focused on owners of closely held businesses who are looking to do a business transition. These owners can sell to private equity, competitors, or other buyers and may have financial advantages in doing so. In some cases, they will get a higher price; in most cases, they will get the money upfront, whereas in employee ownership transitions, it is common for at least part of the financing to be supplied by a seller note paid off over time. To help offset these advantages of selling to another buyer, governments need to provide tax incentives to the sellers.

A third key lesson is that, along with these tax incentives, governments need to create rules to ensure that eligibility for the plan, share allocations, governance rights, and rules for the distribution of benefits from the plan are structured in a way to accomplish the purpose of truly broad-based employee ownership. Absent these rules, the tax incentives may end up simply encouraging the transfer of ownership to a small number of people. There must also be clear rules about how stock is appraised.

The legislative models described here all focus on closely held companies. To date, efforts to encourage broad-based employee ownership in public companies have primarily been limited to tax incentives for employees to purchase stock in their employer. Public companies are not likely to make the transition to majority employee ownership except in rare circumstances. If governments want to encourage more collectively owned ownership in public companies, it is likely that more targeted tax incentives will be needed.

The models described here have in common that they all operate through a trust and that they have similar, although not identical, rules for determining eligibility and benefit allocation. They differ in some significant ways, however. The US model focuses on employees having an equity claim on the value of the company that builds up over time as they work for the company and is distributed to them at some point after they terminate. The UK model focuses instead on employees receiving distributions of current earnings from a trust that holds the shares in their name. The trust is intended to be permanent, although companies still could be sold. The employees do not have an equity claim in the UK model. The Canadian model adopts most of the same approach as the UK model but adds the ability for companies to provide an equity claim for employees if the company is sold. The French model is a variation on French profit-sharing plan arrangements. Ownership is held in a trust and can be funded by the company and/or the employees. A Slovenian model has attributes of both the American ESOP and the UK employee ownership trust model. It is much more focused on governance rights for employees than the other plans, and employee claims on equity are based more on the net asset value of the company than on traditional share valuation models, which are based on what a willing buyer would pay to obtain the right to both the assets and the future earnings of the company.

A second key commonality of these models is that, with the exception of the ability for employees in the French model to purchase shares, all of the models provide that funding for the plans comes from the employer, not the employee. This means that employee ownership will be broadly distributed among the workforce.

The models differ somewhat in governance rights for employees in the plan. Only the Slovenian model, however, has specific rules providing for employee involvement in the management of the company. In other countries, the level of involvement is decided by the company.

This paper includes a long article with descriptions of each of the country models, as well as an appendix providing a table comparing the models on key points. Biographies of the authors can be found at the end of the paper. All of the authors have been primary players in the development of these models. Their participation in this project is greatly appreciated.

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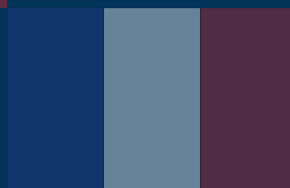
Employee Stock Ownership Plans in the US



1 EMPLOYEE STOCK OWNERSHIP PLANS IN THE US

Corey Rosen

Employees in the US can become owners of their companies in a variety of ways. Many companies provide equity grants, such as stock options or restricted stock, to a significant portion of employees, and some companies, especially in the tech sector, provide these grants to everyone. Many public companies have plans to allow employees to buy shares at a discount. In addition, the most popular retirement plan option in the US is the 401(k) plan, which allows employees to put pretax money into a retirement account via salary deferrals, usually with the company providing a match of some or all of what the employee defers. In public companies, employees may be able to choose to invest part of their 401(k) deferrals in company stock.

All of these mechanisms provide employees with a small minority of total company ownership. With some exceptions, they tend to be skewed toward more highly compensated employees. In contrast, the employee stock ownership plan (ESOP) by law must include most or all employees on a nondiscriminatory basis. Unlike some other stock plans, ESOPs are funded by company contributions, not employee share purchases. While an ESOP can own any percentage of the sponsor company, most ESOPs either are or will be 100% owners of their companies.

There are about 6,500 ESOPs in the US. 92% of these plans are in private companies. Table 1-1 provides data on participation in these plans. Although the large majority of ESOPs are in private companies, the large majority of participants are in public company ESOPs because these companies are so much larger. Public company ESOPs typically own less than 10% of company shares, while the large majority of private company ESOPs own 100% of the company shares, although they can own any percentage that the company chooses. National Center for Employee Ownership (NCEO) data show ESOPs have been good for employees. The average account balance is about $121,000 in public companies and about $130,000 in private companies. Longer-term employees have even higher account values because companies add contributions to the plan each year. These numbers are about twice what comparable employees have in 401(k) plans. In 401(k)s, about two-thirds of the funds come from employers and one-third from employees; in ESOPs, almost all funds come from employer contributions.

Table 1-1. ESOP plans, participants, and assets in 2022 (the most recent data)*

Category	Plans	Total participants	Active participants	Employer securities (millions)	Total plan assets (millions)
Privately held companies	6,016	2,620,779	1,939,226	$209,681	$301,750
Small plans (under 100 participants)	3,407	153,107	113,296	$20,203	$23,399
Large plans (100+ participants)	2,609	2,467,672	1,825,930	$189,478	$278,351
Publicly traded companies	533	12,335,536	8,924,849	$150,916	$1,516,906
Total	6,548	14,956,315	10,864,075	$360,597	$1,818,656

*Source: National Center for Employee Ownership. Data come from reports from the US Department of Labor, using data that always lags the current date by two to three years, hence the 2022 date for these numbers.

Companies do better as well. A study of private ESOP companies conducted in 1986 by the NCEO and published in the Harvard Business Review found significantly higher post-adoption growth for private ESOP companies, especially those with employee teams and greater worker influence in day-to-day business decisions. ESOP company growth rates were 3.8% greater per year than would be expected in the post-ESOP period based on pre-ESOP performance.[2] A study of companies from 1988 to 1999 by Douglas Kruse and Joseph Blasi at Rutgers found almost identical results.[3] ESOP companies also lay people off at a much lower rate than other companies and have much higher employee retention rates. A review of all the research on these issues in public and private company ESOPs is available at the NCEO's web page What the Research Says: The Impact of Employee Ownership.[4] Data on the performance of public company ESOPs are more mixed, although they generally show modest benefits.

Critics of ESOPs argue that they are undiversified investment plans and put employees at excessive risk. This would be more valid if employees were using their own money to fund the plans, either directly or because the companies are reducing other pay and/or benefits. However, ESOPs are almost invariably funded by the company without reducing existing pay. Most private ESOP companies have a second diversified retirement plan, such as a 401(k), and after adding the ESOP, they generally do not greatly change their existing 401(k) contribution level.[5] Wages and other benefits are also somewhat higher than in non-ESOP companies.[6] As noted below, however, in public companies, the ESOP contribution is more likely to be a 401(k) match that partially or completely replaces existing company contributions to the 401(k).

How ESOPs Work

Unlike all the other plans in this comparative paper, ESOPs are part of retirement law. In the US, the Internal Revenue Code provides companies with a tax deduction for contributions to pension plans (where a level of annual benefit is guaranteed) and defined contribution plans (where the company makes annual contributions to the plan and the employees get whatever is in the plan after leaving the company). ESOPs are a type of defined contribution plan. They were created in the 1950s but did not become part of the law until 1974, when Congress passed the Employee Retirement Income Security Act (ERISA). In return for tax benefits, employers must agree to abide by rules governing who is in the plan, how much they get, and when they get it, among other rights.

ESOPs in Public Companies

About 10% of public companies sponsor an ESOP. That percentage has declined somewhat in recent years. ESOPs in public companies operate very differently from ESOPs in private companies. In the typical public company plan, the company makes annual contributions of shares to the ESOP to be used as a match to employee deferrals in a 401(k) plan. The company often pays dividends on its shares held in the plan, which are reinvested in the plan. The company receives a tax deduction for its contributions to the plan.

2. Corey Rosen and Michael Quarrey, "How Well Is Employee Ownership Working?," *Harvard Business Review*, September 1987.
3. Joseph Blasi, Douglas Kruse, and Dan Weltmann, "Firm Survival and Performance in Privately Held ESOP Companies," in *Sharing Ownership, Profits, and Decision-Making in the 21st Century*, ed. Douglas Kruse (Advances in the Economic Analysis of Participatory and Labor-Managed Firms, vol. 14) (Emerald Group Publishing Limited, 2013), 109–24.
4. See https://www.nceo.org/academic-research.
5. A 2020 NCEO study found that of the 191 private companies that established an ESOP in 2013, 110 contributed to a 401(k) as well in that time period; of these, almost all retained the 401(k) plan and the median company's per-participant 401(k) contributions were relatively unchanged, but 15% stopped employer contributions after establishing the ESOP. "How Do Employer 401(k) Contributions Change?," *Employee Ownership Report* 40, no. 2 (March-April 2020): 3.
6. NCEO, Employee Ownership and Economic Well-Being, https://www.ownershipeconomy.org/, 2017.

In some plans, the company borrows money to fund the plan. The company takes the borrowed amount and loans it to the ESOP, which uses the money to buy company shares. The ESOP buys a large block of shares and releases them to employee accounts as the loan is repaid. The company is able to deduct both the interest and principal on this loan. If the company uses dividends paid to the ESOP to help repay the loan, the dividends are tax-deductible. In the US, dividends are not normally tax-deductible.

ESOPs in public companies are less common than they were in the 1980s. This is largely due to concerns about the combined ESOP and 401(k) plan being the primary retirement plan for employees, coupled with unfavorable tax and accounting changes starting in the late 1980s. When the ESOP contribution replaces the existing 401(k) company match, this decreases the amount of diversification in these plans, although on average, the value of company stock is just a fraction of plan assets (see the public company row in table 1-1).

Aside from special features such as the tax deferral for sellers of private C corporations discussed below, the general rules for public company ESOPs are the same as those for private companies, except that in public companies, employees must have full voting rights for their ESOP shares, and the stock does not need to be appraised because the market sets the price.

ESOPs in Private Companies

ESOPs and private companies operate very differently from ESOPs in public companies. For advocates of employee ownership in the US, these private company ESOPs are the most important model and the one that promises the most potential for a transformative effect on companies and employees. Because of this, the rest of this paper will focus on this model.

By far the most common application of an ESOP in a private company is as a means for the seller to transition out of ownership. Sellers have a lot of choices when selling the company they have worked so hard to build. They might be able to sell to another company or a private equity firm. Or perhaps they have key employees who have the funds and risk appetite to make an offer. Selling to an outside buyer, however, involves the risk that they might not keep all of the staff, might move the company elsewhere, or might not be true to the values of the company.

Selling to an ESOP company may be an attractive alternative. There are many potential benefits:

- The ESOP company can pay a competitive price.
- Depending on how the deal is structured, sellers may be able to get a tax benefit on the sale.
- Employees will generally become participants in the buyer's ESOP at no cost to them.
- ESOP company acquisitions have a strikingly successful track record. Research shows that these acquisitions are much more likely to succeed than acquisitions by other buyers.

ESOP Tax Benefits

When most people think about employee ownership, they envision employees actually buying shares. That is not how an employee stock ownership plan (ESOP) works. Instead, these plans are funded by the profits that the employees help to earn after the plan is set up. The company can deduct the costs of funding the plan, and the owner can often get substantial tax benefits in the process.

An ESOP is a type of defined contribution retirement plan that invests primarily in company stock and holds its assets in a trust for employees. It is governed by many of the same rules that cover profit sharing and 401(k) plans. Unlike a 401(k) plan, in which the employees defer their own wages into the plan with a possible company match, almost all non-public company ESOPs are funded by employer contributions only. An ESOP may own 100% of a company's stock, or it may own only a small percentage. ESOP participants (the employees) accrue shares in the plan over time and are paid out by having their shares bought back, typically after they leave the company. Over 90% of US ESOPs are in private companies (see table 1-1 above).

Most ESOPs are used to buy out the shares of one or more owners. Sometimes, the sale is for all of the stock; other times, it is for just a portion of the stock (with more to be bought later). In an ESOP, the company sets up a trust for the benefit of the employees who will be in the plan. The trust buys the shares with funds contributed by the company. This can happen in two ways:

1. The company contributes cash on an annual discretionary basis to the trust, which then uses the cash to buy shares.
2. The company contributes authorized but unissued shares (often referred to as "treasury shares") on an annual discretionary basis.

Most often, the company borrows money and then loans it to the trust (an "inside loan") to buy a large block of shares, usually from existing shareholders. The company contributes cash each year to the trust. Generally, the cash is immediately repaid to the company as payment of principal and interest on the inside loan. The loan can be from multiple sources, but it is usually from a bank. Alternatively, the selling shareholder(s) can take a note for the amount owed and be paid out over time, as discussed below.

Either way, the company's contributions are tax-deductible. In the US, stock redemptions are otherwise not tax-deductible. That means, for instance, that if an owner is selling $5 million in stock and has a corporate tax rate of 30%, the company would need just over $7.1 million in pretax earnings to have $5 million after tax for a redemption. However, with an ESOP, the company only needs $5 million in profits to buy $5 million in stock.

In the US, companies can be partnerships, sole proprietorships, C or S corporations, or limited liability corporations (LLCs). C corporations are what most people think of as a company. The company pays taxes based on its profits, and the owners pay taxes on any dividends or capital gains. In all the other forms of corporate organization, the company itself does not pay taxes. Instead, the owners pay taxes on their share of the profits pro rata to their ownership interest. For a company to set up an ESOP, it must either have or convert to C or S status because these are the only corporate forms where ownership is in the form of stock. There are different tax advantages for ESOPs in C corporations and S corporations. Congress has been extremely supportive of ESOPs in terms of tax incentives, and the many additional incentives for ESOPs created since 1974 have invariably passed without opposition. ESOPs are one of the few significant policy areas where this kind of nonpartisanship exists.

If the company is private and is a C corporation or converts to C status before the sale, the seller(s) can reinvest the gains in qualifying stocks and bonds and defer taxation until the replacement investments are sold, provided certain requirements are met, such as the ESOP's owning 30% or more of the shares after the sale. Normally, the seller would have to pay capital gains tax on the sale. If the replacement securities are held until death, there may be a step-up in basis, and no income taxes will be paid (there may, however, be estate taxes). Qualifying investments are stocks and bonds of US operating companies.

If the company is or becomes an S corporation, then the share of profits attributable to the ESOP is not taxable at the federal level and usually the state level as well. That means that in a company 30% owned by an ESOP, only 70% of the profits would be taxable. In a 100% ESOP-owned company, none of the profits would be taxable. Because of this extraordinary tax benefit, most private company ESOPs either are or will become 100% employee-owned.

While most ESOPs are used to buy out an owner, there are some companies that set these plans up simply as an additional employee benefit. These ESOPs typically own a minority of the shares.

ESOP Financing

The simplest way to use an ESOP to transfer ownership is to have the company make tax-deductible cash contributions to the ESOP trust, which the trust then uses to gradually purchase the owner's shares. Alternatively, the company can borrow the funds needed to buy the shares and then loan the money to the ESOP and have the ESOP buy the shares. In this way, larger amounts of stock can be purchased all at once, up to 100% of the outstanding shares.

In some cases, such as when the total debt exceeds available collateral, the bank may also want a personal guarantee or may only be willing to loan part of the total sought. In that case, the ESOP might buy part of the shares now and part after some of the debt has been paid.

Many ESOPs, however, are funded at least partially by a seller note. The seller may finance the entire deal or just the part not financed by a bank. The ESOP acquires the shares and then pays back the seller at a reasonable rate of interest that reflects the fact that the seller note is subordinate to any other debt and is collateralized only by what the seller already owns. The rate is negotiated between the buyer and the ESOP trustee. Sellers often like seller notes because they not only sell their shares but also receive a reasonably good rate of return on the note. Rates are usually a few points above prime, although some sellers accept a lower rate.

The price the ESOP will pay for the shares must be not more than that determined as of the date of the transaction by the ESOP trustee. The trustee hires an independent appraiser to determine the value. The appraiser's valuation report is based on several factors. Most appraisers rely primarily on an assessment of the value of the company's future free cash flow (EBITDA) to a hypothetical financial buyer. This is generally done by discounting the projected future free cash flow to arrive at a present value. The discount rate is based on what the hypothetical buyer would want, given alternative investments the buyer could make. Appraisers will also consider comparable public companies' values and book value. The appraiser will try, as much as possible, to determine how much the business would be worth if there were a market for it.

It is important to emphasize that employees do not use their own money to purchase stock in an ESOP. The funds for the acquisition of shares come out of the future tax-deductible profits that the company generates.

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How Employees Get Stock

ESOPs are much like other tax-qualified retirement plans. Generally, employees who have worked at least 1,000 hours in their 12-month eligibility period from the date of hire must be included in future allocations if still employed, although there are various exceptions to these rules. They normally receive allocations of shares in the ESOP proportionally based on their pay. If there is an ESOP loan, the shares are allocated each year based on the percentage of the loan that is repaid that year. The allocations are subject to vesting for up to six years.

Participants are not eligible to elect a distribution of their ESOP vested balances until after terminating employment. Companies are allowed to delay the payout of ESOP accounts for six years after termination unless the employee dies, is disabled, or retires. In these cases, payouts generally must begin within one year of the termination event. In all cases, the company can make the distributions in installments of up to five years. Companies can also choose to start paying out sooner. Employees must be allowed to diversify part of their employer stock after reaching age 55 and participating in the ESOP for 10 years.

The plan is governed by a trustee appointed by the board of directors. The trustee normally votes the ESOP shares (rather than the ESOP participants) except in significant corporate transactions, such as the sale of all company assets and a merger with another company, where participants can direct the voting.

It is important to reiterate that ESOPs do not allow employers to pick and choose who can get stock or to make allocations based on discretionary decisions. Also, employees are not literally shareholders. The ESOP trust holds the shares, and the ESOP trustee is the shareholder of record for the company stock in the plan; the participants, on the other hand, are beneficial owners who have accounts in the ESOP.

Governance

The legal owner of the stock in an ESOP is the trust. The employees are beneficiaries of the trust. The board of directors appoints a trustee or trustee committee to oversee the trust. In most cases, the trustee is an independent outsider for any transactions between sellers and the ESOP. For other transactions, the trustee may be an outsider or an individual or committee of insiders. The trustee's most important responsibility is to make sure that the valuation is done properly and results in the ESOP paying not more than fair market value. There have been proposed regulations on how this should be done, but as of this writing, those have not been finalized. The trustee votes the ESOP-held shares to elect the board of directors, creating a kind of circular arrangement.

In public companies, ESOP participants can direct how the trustee votes the shares. In private companies, ESOP participants have very limited required voting rights. A small minority of ESOP companies do allow employees to vote on all issues. Some critics of ESOPs have argued that unless employees have full voting rights to elect the board of directors, it is not real ownership. The research on this point, however, indicates that employees are much more interested in having a say over work-level issues than board-level issues and that companies that do pass through voting rights do not make significantly different decisions than companies that do not pass through voting rights. If full voting rights were required, many sellers would be reluctant to set up an ESOP in the first place out of concern that employees would make decisions that would make it more difficult for their seller notes to be repaid.

Conclusion

US ESOPs provide many useful lessons for other countries considering employee ownership. When employee ownership is structured through employees purchasing shares that they can sell, the experience in many countries that have tried it is that employee ownership tends to be ephemeral. It also may be limited to those employees with more discretionary income. Holding shares in the trust provides a way to make ownership long-term.

Another key lesson from US ESOPs is that their widespread adoption depends on meaningful tax incentives. Altruism is a great thing, but it is not a very effective mechanism for widespread social change. Finding a way to link the interests of sellers with broadening ownership has proven effective. Despite these substantial tax benefits, the large majority of business owners choose to sell to other companies or to private equity. That is usually because they do not know what an ESOP is, and if they do know, they may believe that they can get a better price from another buyer. While there is an infrastructure of state and national organizations promoting employee ownership, most business advisors are still unfamiliar with the idea and often have more of an economic interest in arranging a sale to other buyers.

A third lesson from the research on employee ownership in the US is that companies that practice high-involvement management techniques at the workplace level, as opposed to the board level, perform a lot better financially and in terms of employee commitment to the firm.

ESOPs are part of US retirement law partly by political accident. Ideally, they would be under their own set of rules. US retirement law can sometimes introduce artificial constraints on how these plans are operated. Countries that can design their own trust or other common holding mechanism with specific rules for employee ownership should be able to craft rules that are more appropriate for employee ownership. Finally, the US experience shows that employee ownership has had a powerful impact on employee economic well-being and corporate performance. As noted, it is also one of the few ideas that has extraordinarily broad political support. Hopefully, the US experience will encourage other countries to find their own paths toward broad-based employee ownership.

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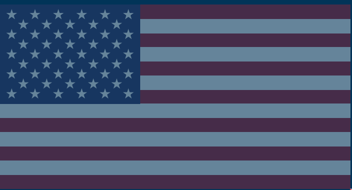
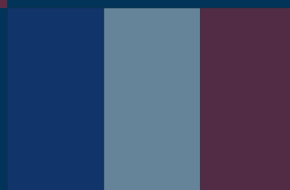
Employee Ownership Trusts in the UK





2 EMPLOYEE OWNERSHIP TRUSTS IN THE UK

Graeme Nuttall

The background to employee share ownership (ESO) and employee ownership in the UK is similar to that in the US, but there is a significant difference in the design of the UK's predominant model of employee ownership.

In both the UK and the US, employees can become shareholders in their companies in various ways. The UK has a full range of tax-advantaged stock plans to support stock ownership by individual employees. There are also non-tax advantaged plans. Most UK-listed public companies and some private companies operate such an employee stock or stock option plan. These are mainly selective plans rather than all-employee plans. As in the US, these plans are primarily a financial incentive and typically provide employees with a small minority of total company ownership.

In the 10 years since the EOT legislation was enacted, some 1,800 companies have transitioned to employee ownership using this model, with most in the last few years.

Another similarity to the US is that private company employee ownership is a well-established idea, originating mainly as a business succession solution. The UK model used as a succession solution is its long-standing employee trust model. A prominent pioneer of this model, the John Lewis Partnership, has been employee trust-owned since the 1920s. The model was recognized in UK tax law in 2014 as the employee ownership trust (EOT). An EOT must include all employees who meet plan eligibility rules as beneficiaries on a nondiscriminatory basis. Like the US ESOP, the EOT is funded by company contributions, not employee purchases of shares. For tax reasons, the EOT owns a controlling interest in the company, and most EOTs either are or will be 100% owners of their companies.

The significant difference between the UK and the US is that, unlike the ESOP, there are no individual allocations of shares under the EOT. Rather, the EOT's shareholding is held collectively on behalf of all current and future employees.

Although the trust model of employee ownership has been around for 100 years, its use took off after the Nuttall Review of Employee Ownership was released in 2012.[1] In 2012, the UK government adopted a series of recommendations in the Nuttall Review to support all forms of employee ownership. This policy separation of ESO from employee ownership succeeded. In 2014, because of the Nuttall Review, elements of best practices from the UK's trust model were codified in tax law to create the EOT. This raised awareness of the trust model as a business succession solution and generated resources to support it. The EOT has put employee ownership into the UK mainstream and at scale. In the 10 years since the EOT legislation was enacted, some 1,800 companies have transitioned to employee ownership using this model, with most in the last few years. The growth of the UK employee ownership sector continues at a rate of more than one new employee-owned company a day. Other models exist, but the EOT is the dominant UK employee ownership model.

The EOT is a small-to-medium enterprise phenomenon, although some larger companies are EOT-owned. These EOT-owned businesses are in different sectors, with the top five being professional

1. See https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership.

services, information and communication, wholesale and retail trade, manufacturing, and construction.

Research shows EOTs, as with other employee ownership models, benefit a business, its employees, the communities in which the business operates, and the national economy.

How an EOT Works

The difference between the EOT and more direct employee ownership models,[2] such as worker cooperatives or ESOPs, is there are no individual awards or allocations of shares. Instead, shares are held indirectly on behalf of all current and future employees of a company (or group) as a discretionary class of potential beneficiaries. The EOT's shareholding is permanent and is not "recycled," as in an ESOP with its recurring awards to participating employees and repurchases from departing employees. A recruit automatically becomes a member of the class of beneficiaries, subject to any qualifying period of employment. A departing employee stops belonging to the class of beneficiaries unless former employees are allowed to remain as beneficiaries. The status of employees is unchanged after the EOT is implemented. They do not, as with a worker cooperative, have to take on additional responsibilities as voting members of a business. Membership of a discretionary class of beneficiaries is not a taxable benefit.

US ESOPs can be used both as a means for employees to own most or all of a company (as is normally the case in closely held companies) or simply as a benefit plan intended to own only a small percentage of the company (as is the case in most public company ESOPs), something that may not lead to higher employee engagement. EOTs, in contrast, always have a controlling interest, and their purpose is to provide long-term ownership of the company.

An EOT's purpose is to provide long-term employee ownership of a company. The EOT trustee has a fiduciary duty to act in the interests of the EOT's beneficiaries. The trustee can use its voting rights as a controlling shareholder to achieve the EOT's purpose, but in practice, it has sufficient authority to influence the company without the need for any formal exercise of these rights.

2. Although ESOP participants do not directly own the shares, they have individual accounts and are the beneficial owners of the shares in those accounts.

Business Succession

The EOT provides an attractive business succession solution for the same reasons as an ESOP does. It is the UK's second most popular succession solution after family succession.

Like US ESOPs, EOTs have distinct tax advantages, which are described below. In addition to the many tax incentives that are similar to those of the US ESOP, the aims most often cited by former owners are to:

- ensure the business remains independent;
- protect and promote the livelihoods of current and future employees; and
- protect and sustain the core values, culture, and ethos of the business.

Each of these can be strongly supported by the terms of the EOT. In particular, the response to any offer to buy the employee-owned company will be handled by the board of directors of a trustee company, subject to fiduciary duties to consider the long-term interests of future as well as present employees. Sellers see this as preferable to a decision taken by individual, possibly more self-interested, employee shareholders or trustees of a stock plan with a duty to provide financial benefits to employees.

An EOT also helps provide for management succession. With an EOT, employees may be promoted on merit and not because of their ability to afford to buy shares or take on the financial risk of doing so, as with management buyouts or other models that require senior management to have personal shareholdings. The EOT buyout arrangements are straightforward to understand and implement, and they do not create ongoing financial and administrative burdens on a company.

Once the EOT trustee has paid for the shares, there is no further need to finance share purchases. Long-term trust ownership avoids the challenges

of using profits to finance an internal market on an ongoing basis, as with an ESOP or other more direct ownership models. An EOT trustee does not need any financing to meet repurchase obligations. This helps maintain the independence and financial well-being of the company. The complexities of operating a direct employee ownership model are avoided. With an EOT, employees may receive cash profit shares without the need to hold or sell shares personally. There is no risk of different generations of employees receiving disparate gains (or losses) based on share price fluctuations.

The tax position of shares held long-term in a discretionary trust is straightforward. Something taken for granted in the UK is that employee trusts generally, not just EOTs, have valuable exemptions from the inheritance tax (IHT) regime that generally applies to trusts, and especially from a 10-year anniversary charge on trust assets. These IHT exemptions mean there should be no recurring tax charges on an EOT trustee. The main ongoing administrative matter is deciding who should be on the board of directors of the trustee company, and the main cost is the fee of any independent trustee director.

Financing an EOT

The range of circumstances in which an EOT acts as a business succession solution and the financing principles are similar to those for an ESOP, as is the main risk for the sellers.

In both cases, a trust buys shares from those wishing to sell, financed by contributions from the profits, including reserves, of the founding company or group. Almost all EOT transactions, as with private company ESOPs, involve deferred consideration. This is an inevitable feature of financing employee ownership in private companies when employees do not invest their own money. Sellers, in effect, finance the share purchase by agreeing to installments over several years (on average, around six to seven years). This creates the main risk for sellers, that of not getting paid in full. Another deterrent to some, such as elderly shareholders, is the delay in getting paid. When UK interest rates were 0.75% or less, installment payments were often interest-free, but interest is now typically charged on installments.

Payments to selling shareholders may be accelerated by the underlying company (sometimes the trustee itself) borrowing from a bank. If the company borrows money to help finance share purchases by the EOT trustee, this money will usually be given outright to the EOT instead of being loaned to the trustee. The bank loan will be paid back (with interest) from company profits.

An important similarity with the US is a tax provision that helps individuals (and trustees) accept deferred consideration. Such a seller in the UK will usually pay capital gains tax at a reduced rate because of business asset disposal relief. However, if, in broad terms, a controlling interest in a company or group is sold to an EOT, there is a complete exemption from capital gains tax. The EOT trustee takes over the inherent gain. This capital gains exemption helps sellers accept the delay and credit risk in getting paid.

The UK EOT sales process is not heavily regulated, in contrast to the US. Until October 30, 2024, there were no specific requirements. From this date, when the capital gains exemption is claimed, a trustee is expressly required to check that it does not pay over market value and that any interest does not exceed a reasonable commercial rate. This requirement reflects what was, in any case, best practice. HM Revenue & Customs' views are reasonably well-known on what market value is because of practices such as agreed market values for tax-advantaged share plans. There are various other conditions to meet to obtain the capital gains exemption.

The contributions a company makes to finance an EOT acquiring a controlling interest are received tax-free by the EOT's trustee. Before October 30, 2024, this treatment was based on HM Revenue & Customs' view that such contributions were not a dividend or other form of taxable distribution. From October 30, 2024, provided various conditions are met, these receipts are tax-free under a statutory provision. This change is likely to make immediate moves to 100% EOT ownership more frequent, rather than staged moves from over 51% and then

later up to 100% ownership, to ensure share purchases may be financed with tax-free payments.

The main financial drawback compared to US ESOPs is that contributions to finance an EOT are not tax-deductible for UK corporate tax purposes. Also, there is no equivalent to the extraordinary arrangement with an S corporation, where the share of profits attributable to the ESOP is not taxable. A UK company must use post-tax profits to finance a conversion to EOT ownership.

How Employees Get a Financial Benefit

In an employee-owned business, surplus profits otherwise distributed to shareholders are available to benefit employees. This is reflected in, for example, fairer basic wages, investment in training and skills, and profit-sharing.

All-employee profit-sharing is fundamental to employee ownership, unless perhaps in an employee-owned social enterprise. If a company only has indirect employee ownership, as with a 100% EOT-owned company, then it will have to operate a cash profit-sharing plan.

An EOT-controlled company has the advantage of another EOT-specific tax exemption. This is based on the John Lewis Partnership's successful model of annual bonuses. During the 50 years ending in 2020, the John Lewis Partnership's all-employee bonuses averaged 14.8% of salary.

There is an income tax (but not national insurance) exemption for certain bonus payments up to £3,600 per tax year per employee. The bonus needs to be a genuine bonus and paid under an arrangement that, broadly, makes awards to all the employer's current employees (or a group's employees), whether part-time or full-time. Every eligible employee must participate on the "same terms," although this requirement will not be violated if an award is determined by reference to remuneration, length of service, or hours worked. It is possible to exclude recently hired employees by setting a minimum qualifying period not exceeding 12 months, and employees can be excluded in limited circumstances involving disciplinary matters. It is the employer, not the trustee, that must make these payments. Bonuses may be paid throughout a tax year to use up the exempt amount. There are other conditions to meet.

An EOT-owned company that has paid all deferred consideration to former shareholders might pay a bonus based on length of service to celebrate this achievement. Normally, bonuses are either the same amount per employee or calculated according to earnings, such as a percentage of an employee's earnings during the financial period to which the bonus relates.

A bonus plan qualifying for the EOT income tax exemption may be operated in conjunction with another cash plan, where bonuses are subject to the usual liabilities to income tax and national insurance contributions. Around 10% of EOT-owned companies operate one or more share or share option plans alongside the EOT's controlling shareholding. These plans are managed separately from the EOT. A typical hybrid model is that a tax-advantaged share incentive plan (SIP) is introduced. This provides all employees with an opportunity to acquire and dispose of shares in a tax-efficient way, allowing profits to become tax-free capital gains for employees.

How Employees Get Nonfinancial Benefits

The nonfinancial benefits of the EOT for employees are broadly the same as those of other employee ownership models. As with other models, they are provided primarily by ensuring there is an employee ownership ethos in everything the underlying company does. This may involve an employee council that works with the company's board of directors and/or employee representatives on that board.

The structural difference with an EOT is that the trustee has the duty (and the power) to ensure a company has an employee ownership ethos. Research shows the best outcomes include not only financial participation and participative mechanisms but also an ownership culture that encompasses a collective voice. The EOT's long-term shareholding underpins many of the benefits of employee ownership for employees, including job security. Employee

trust-specific research shows the model supports values such as fairness and trust at all seniority levels and "meaningful work." Employee surveys report high levels of staff satisfaction in EOT-owned companies. There are a few areas in which EOTs do more than other employee ownership models (although not at statistically significant levels): they are most likely to hold accreditations for employee welfare, employee diversity and inclusion, and health and safety.

Governance

As with a US ESOP, the legal owner of the shares in the EOT is the trustee, and the employees are beneficiaries of a trust. Unlike ESOP participants, however, EOT company employees are discretionary beneficiaries and do not have any beneficial interest in the EOT's shares.

The EOT model is flexible. The EOT legislation does not prescribe an entire model. It provides key design features that are, in effect, overlaid on the preexisting trust model. An EOT-owned company can therefore have, for example, employee democracy built into its governance arrangements. The default is a "traditional" management model, with a board of directors and senior management appointed because of their experience and expertise and the trustee acting in a supervisory or custodian role as controlling shareholder. The terms of the EOT may contain restrictions of varying difficulty to prevent a sale of the EOT's shares.

Many aspects of establishing an EOT are the same as those for establishing other private trusts. This made it possible for UK advisers to become familiar quickly with the EOT model. The trustee is typically a company limited by guarantee (a not-for-profit company) created solely to act as the EOT's trustee, with its members and directors being the same individuals. The constitution of the trustee company usually sets out the required composition of the trustee's board of directors. The best practice is to have a "paritarian" board composition, where some directors are appointed from senior management (and/or selling shareholders), and the same number is selected (or elected) from employees as a whole, with an independent director (such as a professional adviser) as chair.

The trustee's directors meet periodically to review whether the company or group they control meets the EOT's purpose. A typical agenda would check that a company is an independent, professionally managed enterprise with an employee ownership ethos, such that employees are provided with good work, have individual and collective voices, and have a financial share in the company's success. In a few cases, the trustee may be more closely involved in corporate decision-making, with some management responsibilities shared between the directors of the employer and those of the trustee. If there is a significant corporate event, the terms of the EOT and the trustee company's constitution may require consultation with employees or other mandatory steps before a trustee makes its decision.

The UK government relied, until October 30, 2024, on trust law and the trustee's controlling interest to ensure good governance. In response to concerns that this flexibility might be abused, there are now two additional EOT requirements: the trustee must be a UK tax resident, and significant current or former shareholders cannot retain control by being in the majority on the trustee board. Again, these changes reflect good practice.

There are other important restraints that are part of ensuring the trustee meets the EOT's purpose. Assuming a claim for the EOT capital gains exemption is made, then certain disqualifying events (for example, the trustee ceasing to have a controlling shareholding, the underlying company ceasing to trade, or the trustee becoming non-UK tax resident) will trigger a taxable event for the trustee. There would be a deemed disposal and reacquisition at the then-market value of the relevant shares by the EOT trustee. Avoiding these events and the consequent "catch-up" tax charge on the inherent gain is mostly within the trustee's control. Before October 30, 2024, there was a relatively short "clawback period" during which a seller's capital gains exemption claim would fail if there were a disqualifying event. From October 30, 2024, the period during which tax can be recovered from a former owner is extended to the end of the fourth tax year following the year

of disposal. This means sellers must be confident a disqualifying event, especially ceasing to trade, can be avoided during this long period.

The tax liabilities on winding up an EOT are onerous. The trustee would be liable for capital gains tax. The distribution of the net sale proceeds, which has to be made to all employees on a same-terms basis, would be taxed as if earned income (subject to income tax and national insurance contributions). For some, this is seen as another important restraint. Others see it as an unfair double tax charge on a capital gain.

There are other technical and practical aspects to establishing and operating an EOT and a trustee company that are not covered in this summary.

Conclusion

The EOT model, as with the ESOP, is an attractive business succession solution, with all the merits employee ownership provides as a succession solution. It has all the long-recognized benefits of using an entity as a buyout vehicle rather than having employees buy shares personally.

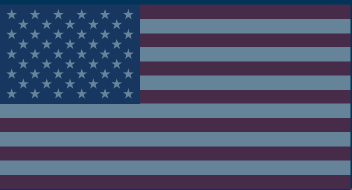
The EOT model's core strengths are that it is purpose-built to support long-term employee ownership and is adaptable to a business's needs. It does not emphasize any aspect of employee ownership, such as a democratic voice (as in worker cooperatives) or rewarding employees through a mandatory stock plan (as with an ESOP). The model is flexible. It is easy to understand, implement, and administer. It works especially well to meet the concerns of selling shareholders to provide for a company's independence, culture, and the livelihood of its current and future employees. Sellers in the UK could use the UK equivalent of the ESOP, the SIP, as a succession solution, but they do not, even though there are attractive tax reliefs to encourage this. The EOT is the UK's predominant model.

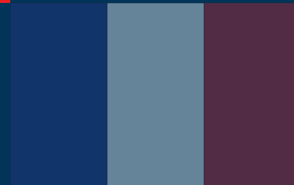
The rapid and powerful success of the UK EOT is encouraging other countries to review what they do to promote employee ownership and, in particular, to look at using a trust or other entity as an indirect ownership model. A collective, indirect ownership model does not, in principle, need a complex standalone tax regime to support it. An EOT can, in theory, be established in any country with trust law. This contrasts with the ESOP and the SIP, which need a special detailed tax regime to work. In a country without trust law, an equivalent legal entity to the EOT is needed, and without trust law, the ownership, as well as the management, of that entity will be important to safeguard how its purpose is achieved. The 2024 changes to the EOT regime highlight concerns over having too much flexibility, which is a lesson for anyone emulating the UK's EOT model.

The EOT has shown there is no need for a specialist infrastructure to support it. UK law firms, accountants, and other business advisers rapidly became familiar with the model. The capital gains tax exemption helped create that situation. This exemption has a vital multi-faceted role in supporting moves to EOT ownership. In addition to its practical role in making deferred consideration acceptable to sellers, it was introduced, in part, to act as a nudge to business advisers to mention employee ownership when asked about succession options. This nudge is working. As seen in the US and the UK, it is likely any country wishing to grow employee ownership significantly will need some tax measures to help achieve its aim.

3

Employee Ownership Trusts in Canada





3 EMPLOYEE OWNERSHIP TRUSTS IN CANADA

Jon Shell

Employee ownership trusts (EOTs) are very new to Canada. Legislation creating this new structure was formally passed into law on June 20, 2024. Canada's EOT was based primarily on the UK's employee ownership trust (UK EOT) model, with additional features that are unique to Canada and provisions that are intended to allow for the wealth-building outcomes of US employee stock ownership plans (US ESOPs).

EOTs are intended for succession: a way to sell a majority of a privately held business to a company's employees. They do not help with selling a minority stake in the company because majority ownership is required to qualify as an EOT. As with many other countries, minority ownership by employees can be achieved in Canada in many ways, such as stock options and share purchase plans.

Canada's EOT was based primarily on the UK's EOT model, with additional features that are unique to Canada and provisions that are intended to allow for the wealth-building outcomes of US ESOPs.

Selling to an EOT is often appealing to owners of privately held businesses as a way to maintain the legacy of their businesses in local communities and provide a long-term reward for employees. Canada is encouraging the adoption of EOTs with some attractive tax incentives, although the primary incentive is currently scheduled to expire at the end of 2026.

How EOTs Work

The easiest way to understand an EOT transaction is that it is a leveraged buyout on behalf of all of a company's employees. Let us say a company has a fair market value of $10 million. The owner of that company can sell it to an EOT for that price, with the proceeds to be paid out of company cash flow over time. Functionally, the owner has provided a loan to the EOT to buy their shares. Financing is discussed below, but other parties, like a bank, may also lend money to fund the transaction.

In the simplest case, the owner sells 100% of the shares, and the EOT then owns 100% of the shares of the operating company. The beneficiaries of the EOT are all of the company's employees, who qualify either immediately or after a probationary period of up to 12 months. An EOT must own at least 51% of the company.

Governance is discussed in more detail below, but it is important to note that the operation of the company will normally continue in a similar manner to how it was conducted before the sale to an EOT. Unlike a worker cooperative, the company continues to be run by management, reporting to a board of directors. That board of directors then reports to the EOT's trustee, which has some required employee representation.

Even if the owners sell all their shares to the EOT, they can retain some governance rights on the company board and the trustee board, but they cannot control the company after the sale. They can continue to work at, and even run, the company after the sale.

Because the transaction is financed by debt, employee beneficiaries do not pay for their shares, making the EOT a broad-based and accessible form of employee ownership. This is one of the reasons EOTs and other similar structures in the US and UK

attract support from governments in the form of tax incentives. In Canada, other factors that were attractive to the government were the tremendous outcomes achieved by the US and UK structures for employees, communities, and the economy as a whole, as well as the prospect of more Canadian companies being owned domestically after a sale transaction.

EOT Tax Benefits

The primary tax benefits of EOTs are designed to encourage adoption by reducing or deferring taxable income for the seller. While EOT transactions should be done at fair market value, because the seller will almost certainly be financing some, and possibly all, of the transaction themselves, they take on additional risk in selling to an EOT and have to wait longer to be fully paid. The tax incentive is intended to compensate for those things.

There are two significant tax benefits. The first is that in a qualified sale to an EOT, the seller is exempt from paying taxes on the first $10 million of capital gain. For example, if a business is sold to an EOT at a value of $20 million, with a $5 million cost base for the seller, tax is applicable only on $5 million of the capital gain. At current rates, this is a tax savings of up to approximately $2.5 million (it varies by province). This tax benefit has several rules limiting the sellers who qualify, which is an area that requires review and improvement. However, this benefit is currently set to expire, as it applies only to transactions that are completed by December 31, 2026. Making this tax incentive permanent and making the rules for applicability more flexible are the main areas of advocacy to improve this very new piece of legislation.

The second is that capital gains taxes from a sale to an EOT can be deferred for up to 10 years, matching cash proceeds, requiring that at least 10% is paid each year. If the business were to be sold to a non-EOT buyer, the maximum deferral is 5 years. This can be a significant benefit for some sellers, depending on their situation. If, for example, a seller were to finance 100% of a sale to an EOT, paid back in equal installments over 10 years, the seller can pay 10% of the capital gains tax due each year until fully paid. This is a logical approach, given the extended timeframe for payment that can happen in an EOT sale.

In addition, the new EOT clears a major barrier to sales to employees through a trust that existed in the past. Other Canadian trusts have a "21-year rule," meaning that the assets of the trust need to be valued every 21 years and capital gains tax paid on the increase in value. In an employee-owned trust, employees do not have the cash available to pay these taxes, creating problems for the trusts' sustainability. Like the UK EOT, the Canadian EOT clears this issue. In the Canadian case, EOTs are exempt from the 21-year rule.

Finally, the Canadian EOT is optimally structured from a tax point of view for the transfer of benefits to employee beneficiaries. Unlike the UK EOT, benefits paid by a Canadian EOT retain their character when cash is ultimately paid to beneficiaries. If an operating company pays either a capital gain or a dividend to the EOT, the EOT distributes those proceeds to employees according to that EOT's formula. Those proceeds are not taxed at the labor income rate; rather, dividends are taxed at a dividend rate, and capital is taxed as a capital gain.

Financing an EOT

Sales to EOTs are 100% leveraged transactions, as the employee beneficiaries do not need to pay for their benefits, and the EOT has no funds with which to pay for equity. Banks and other lenders can help finance EOT transactions by loaning money to the EOT for the acquisition. The EOT can use these funds to pay the seller an up-front cash amount guaranteed by the operating company. While EOTs are too new in Canada to know how common third-party financing will be, it is rare in the United States to see the percentage of the sale price exceed 50% of the total value of the sale.

The difference between the sale price and the amount of third-party financing in the sale will be funded by the sellers themselves (described in traditional transactions as seller financing or vendor take-backs). It is common for UK EOTs to be 100%

financed by the seller, although there are banks in Canada with a history of financing ESOPs in the US, and it is expected that they will be active in trying to provide loans to EOTs in Canada.

How Employees Benefit

Much of the description of the Canadian EOT lines up with the UK EOT. In fact, if one were to read the description of the UK EOT structure, one would be 80% of the way to understanding the Canadian EOT.

Perhaps the primary innovation of the Canadian EOT relates to the distribution of benefits to employee beneficiaries. The primary source of benefit in the UK is the £3,600 tax-free annual allowable distribution, which functions like profit sharing, while in the US ESOP, the primary source is equity gains through the accumulation of shares. The Canadian EOT is designed to be a lot more flexible.

Employees become beneficiaries of the EOT and can receive cash benefits paid through the EOT. For example, the company can pay a dividend to the EOT that then gets distributed among qualifying employees, or the company can sell an asset (or be sold itself), at which point a capital gain can be paid to the EOT, again to be distributed among qualifying employees. As discussed in the tax section, when employees receive their proceeds, they pay tax commensurate with the type of gain (dividends or capital) and not as labor income tax.

Proceeds of income and capital must be distributed according to a formula based only on any one of the following or in combination:

- Total compensation (only amounts up to twice the highest tax bracket, which was $493,504 in 2024, can be considered)
- Hours worked
- Period of employment

Income and capital can also be distributed using different formulas (e.g., one for income and another for capital). A reasonable application of that would be a formula for income distribution based only on compensation and a formula for capital based on compensation but also on tenure. In that way, periodic distributions would use a simple formula based on income, while in the event of a company sale, longer-tenured employees would receive a greater share of the proceeds.

In addition, ex-employees can be EOT beneficiaries, defined in whatever way the trust decides. For example, in the event of a sale, a formula could include all employees who left within five years of the sale, and income distributions could include all employees who left within the prior year. There are no guidelines around how (or whether) to include former employees—it adds flexibility to a Canadian EOT. Former employees, if included, do not need to be included in the same formula as current employees—formulas exclusively for income and capital distributions to former employees can be included in the trust deed.

Finally, rights to shares in the company can be allocated to beneficiaries in lieu of, or in addition to, cash distributions. For example, each year a formula could determine an allocation of rights to a certain number of shares for beneficiaries, to be accumulated within internal capital accounts within the EOT. The trust can then establish rules by which those shares would be repurchased by the company. In this way, a Canadian EOT can create a trust that resembles the US ESOP if desired.

It remains to be seen how this flexibility will play out in practice, as the EOT is too new to get a sense of the choices being made.

Governance

The legal owner of the stock in an EOT is the trust. The employees are beneficiaries of the trust. The seller will appoint a trustee or trustee committee (with each member having an equal vote) to oversee the trust. There are two rules that govern the makeup of the trustee. The first is that at least 33% of votes must be held by an active employee beneficiary of the trust, and at most 40% may be held by former owners of the trust (or arm's-length associates). The trustee has a fiduciary responsibility to the employee beneficiaries and is responsible for agreeing to the initial transaction, overseeing the distribution of benefits according to a defined

formula, appointing a company board of directors, and other matters. The company board of directors has the same rule requiring at most 40% of the votes be held by former owners or their arm's-length associates, but there are no rules requiring employee beneficiary participation.

Employees have voting rights in specific circumstances: transactions where 25% of the beneficiaries of the EOT would cease being current-employee beneficiaries, or the winding up, sale, or merger of the business with another business. Each active employee beneficiary has a vote in these instances, with each vote counting equally.

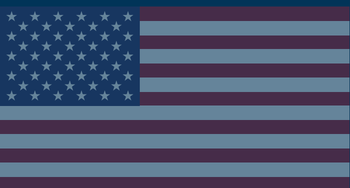
Conclusion

The Canadian EOT has the potential to drive a large employee ownership sector in Canada, where it is currently very small. The success of the UK EOT is an inspiration to the Canadian community, as the Canadian EOT is based primarily on its example. The additional flexibility of the EOTs' approach to benefits provides the opportunity for even better outcomes for employee-owners. The EOTs design is simple, with a smart approach to the tax treatment of benefits, both of which should help with adoption.

There remain important and urgent challenges for the design and near-term expiration of the capital gains tax incentive designed to encourage adoption. Those issues will need to be fixed for the Canadian EOT to achieve its potential for employees and communities.

4

Employee Stock Ownership Funds in France



4 EMPLOYEE STOCK OWNERSHIP FUNDS IN FRANCE

Thibault Mirabel

In France, employees can become shareholders in their companies through several mechanisms. The most common approach is *FCPE simplifié,* referred to here as *Fonds commun de placement d'entreprise* (FCPE) (employee stock ownership funds). FCPEs are offered within the framework of company saving plans (*Plan d'Épargne Entreprise*). These plans typically allow employees to purchase shares at a discount, often accompanied by a matching contribution from the employer. In some cases, especially in large public companies, employees may benefit from reserved capital increases or free share allocations. Fast-growing companies and startups also offer equity-based incentives such as stock options or phantom stock, although these are less common than in the US.

In French, the term *actionnariat salarié* encompasses both employee stock ownership and indirect employee ownership through a fund that holds employer stock, without distinguishing between their legal or governance structures. This linguistic ambiguity masks a fundamental difference between two major models based on tradeoffs between governance rights and financial returns. In worker cooperatives, employees hold direct ownership and exercise strong governance rights, but their financial returns are generally modest and tied to the company's surplus. Worker cooperatives are the only kind of employee-owned firms in France.[1] In contrast, in FCPEs, employees hold shares indirectly and collectively through a mutual fund, with limited or no direct control over company decisions. However, they may benefit from significant financial gains through capital appreciation.

In FCPEs, employees hold shares indirectly and collectively through a mutual fund, with limited or no direct control over company decisions. However, they may benefit from significant financial gains through capital appreciation.

In France, leveraged employee share ownership—where the company or the FCPE takes on debt to acquire a large block of shares and allocates them gradually to employee accounts—is far less common than in the US. Such structures arise from certain privatizations or capital restructuring operations, but they remain exceptional. French FCPEs operate through periodic capital increases reserved for employees, not through debt-financed transactions.

As of December 2024, there were 641 FCPEs in France, representing 70 billion euros in asset management (figures 4-1 and 4-2). The FCPEs in privately held companies represent 44% (281) of all FCPEs, with 12% (8.5 billion euros) of the total assets. Since the PACTE Law in 2019, the number of FCPEs in private companies has grown by 8% per year, rising from 198 funds in June 2020 to 266 funds in June 2024 (i.e., a 34% increase) while the number of FCPEs in public companies keep decreasing by 2% per year but also keep growing in assets. These key numbers support the shared belief within the ecosystem that the potential for FCPE development lies in private small and medium enterprises. Hence, the rest of this

1. Fathi Fakhfakh, Nathalie Magne, Thibault Mirabel, and Virginie Pérotin, "Employee-owned firms in France," *Journal of Participation and Employee Ownership* vol. 6, no. 2 (2023): 101–27.

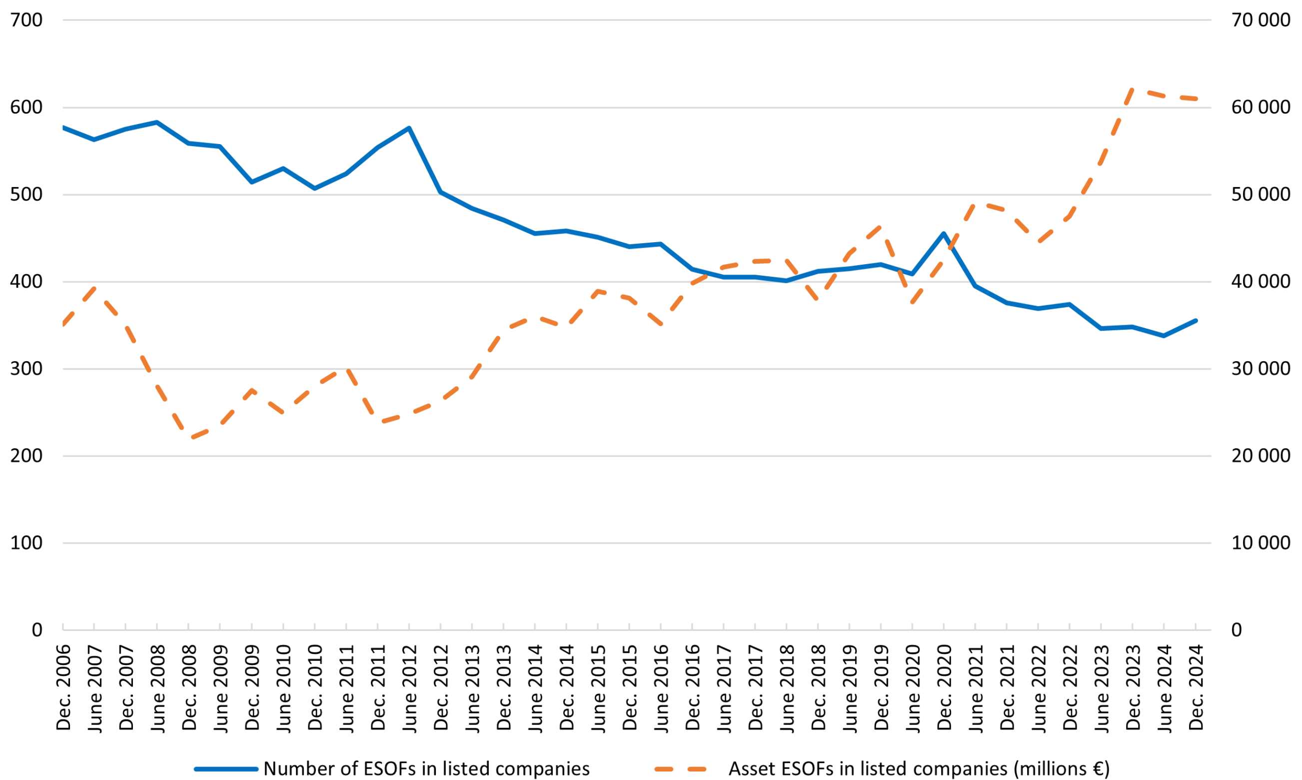


Figure 4-1. Number of FCPEs (blue line) and assets in FCPEs (orange line) for public companies in France, December 2006–December 2024. Source: semestrial reports from AFG (Association Française de la Gestion Financière, a professional body representing the French asset management industry).

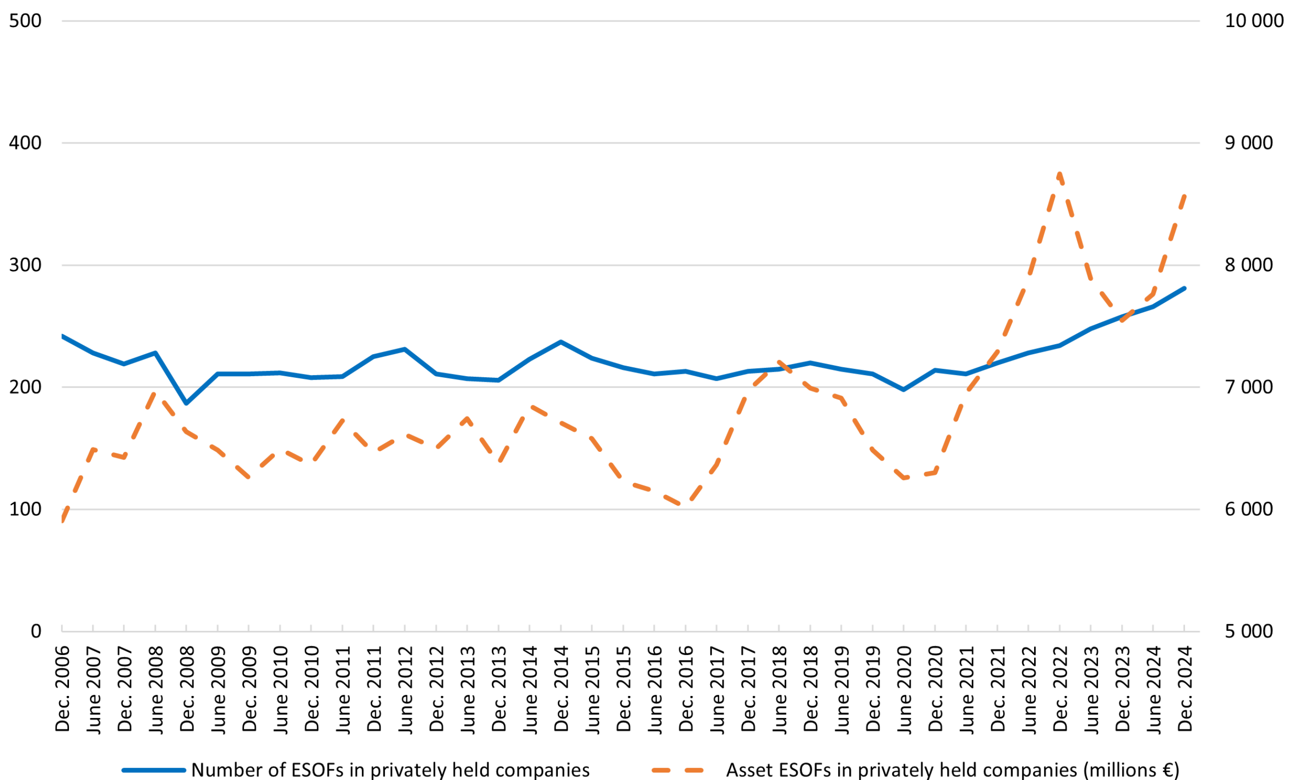


Figure 4-2. Number of FCPEs (blue line) and assets in FCPEs (orange line) for private companies in France, December 2006–December 2024. Source: semestrial reports from AFG.

description of FCPEs focuses on FCPEs in privately held companies.

How FCPEs Work

An FCPE is a collective, indirect, employee ownership plan structured as a mutual fund. It is a collective or democratic plan since, by law, all employees with more than three months of seniority in the company are eligible to buy FCPE units. It is an indirect plan because employees buy units in the FCPE, which itself buys shares in the company (or any company securities such as convertible bonds, warrants, or preferred shares). It is predominantly a minority plan since the FCPE usually owns a few percent of the company's shares, but there is no upper limit to how much an FCPE can own. The value of the ESOP unit replicates the underlying share value, which is set each year by an independent appraiser.

An FCPE is a non-diversified French fund (FCPE) invested in at least 33% of a company's shares and ruled by article L.214-165 of the Financial and Monetary Code. It is set up in the form of a joint ownership of financial instruments and deposits, intended to receive savings from employees under an employee savings plan or profit-sharing agreement. It has no legal personality.

An FCPE is part of a company saving plan (*Plan d'Epargne Entreprise*), which is a collective savings plan enabling employees to build up a portfolio of securities with the help of their company. Since 2006, the company saving plan is mandatory for companies with more than 50 employees.

All FCPEs are certified by the French Financial Market Authority. In collaboration with the corporation in which the FCPE is set up, the management company (*société de gestion*) is in charge of certifying the FCPE to the Financial Market Authority. The management company always behaves in the interest of the employee-shareholders of the FCPE, whether in the absence of a supervisory board (for instance, at the birth of the FCPE) or when counseling the FCPE in case of significant movement of the FCPE's assets.

The valuation of the FCPE's shares is made by an independent expert each semester, with a methodology defined at the beginning of the fund and set up for five years. The usual methodology for assessing the market value of private companies is used, such as an EBITDA multiple of comparative companies minus a debt ratio.

Financing an FCPE

Employees have a few weeks to invest in the FCPE. The company sets this subscription period for the FCPE and usually revisits it yearly. The company also sets a maximum amount for investing in the FCPE.

The FCPE must invest in at least 33% of the company's shares. In practice, most FCPEs invest in almost 100% of the company's shares, keeping a few percent of their investments in monetary assets for liquidity. An FCPE can invest in different types of corporate securities (e.g., preferred shares or bonds) and can modify the composition of its portfolio under the approval of the FCPE's supervisory board.

The investment made in the FCPE is locked in for five years. In private companies, a mechanism guaranteeing liquidity by the enterprise (through a shareholder agreement) is created, or the company buys back 10% of its own shares. The dividends are reinvested in the FCPE.

How Employees Get Stock

Unlike all the other plans in this comparative paper, FCPEs are funded by employee purchases of shares even if employees can benefit from company contributions. The FCPE is part of the company saving plan (*Plan d'Épargne Entreprise*). As such, employees have four main sources for investing in an FCPE: (1) profit-sharing plans (voluntary and compulsory), (2) voluntary payment, (3) transfers from diversified funds of the company saving plan, and (4) company contributions (see figure 4-3).

There are three types of company contributions. First, there are matching contributions on profit-sharing and voluntary payment. This is capped at 300%. It cannot be based on relative wages but can be based on seniority in the company. Most of the time, the matching contribution declines at higher investment brackets; for instance, 100% matching

up to 100 euros, then 50% from 101 to 200 euros, then 25% from 201 to 300 euros. Second, there can be a unilateral contribution in which the company offers free FCPE shares to all employees with more than three months of seniority. This has been created with the 2019 PACTE law. Third, the company can decide that employees buy FCPE shares at a discounted price of up to 30%.

Once invested in the FCPE, the money is locked in for five years and is not subject to income tax.

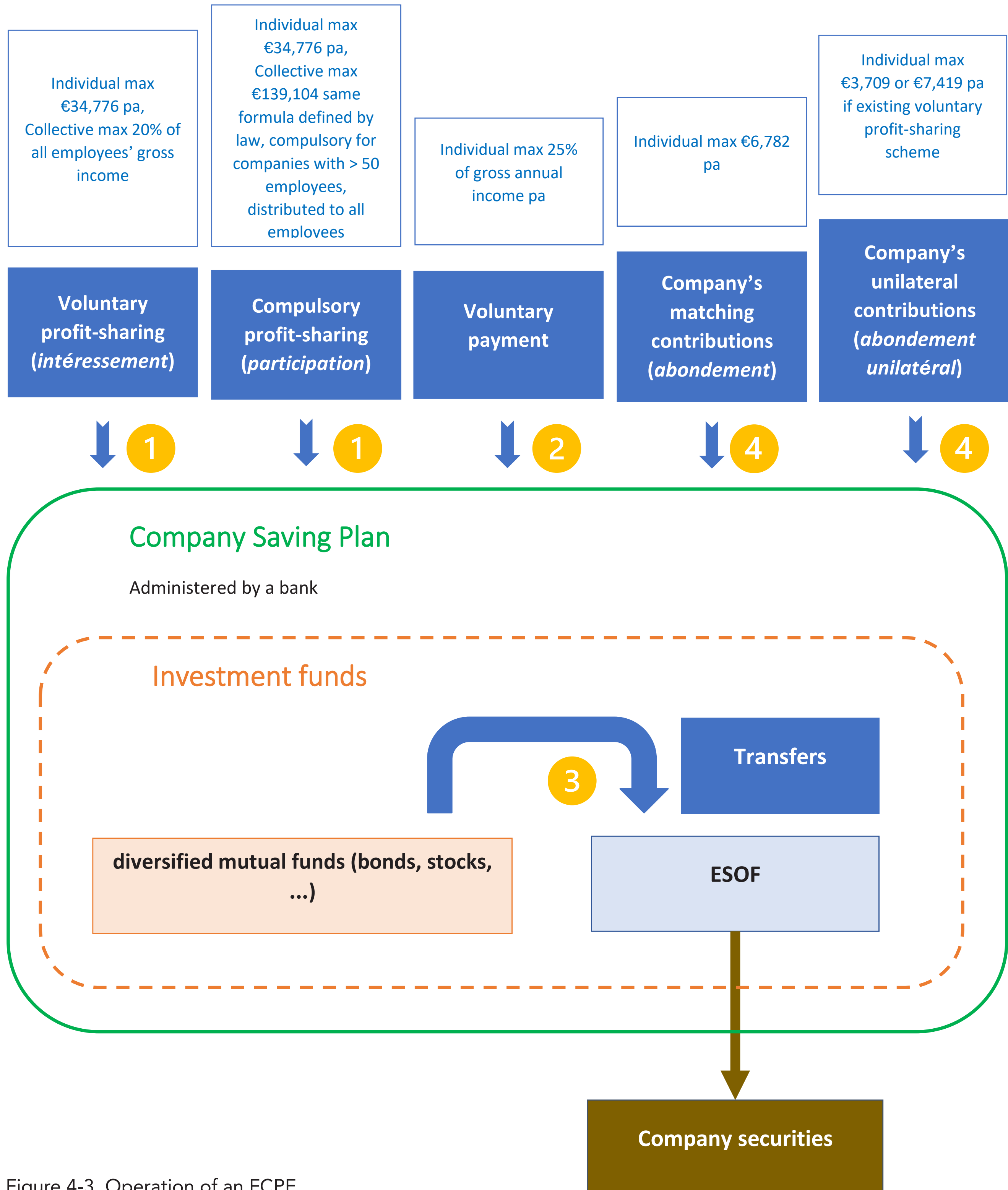


Figure 4-3. Operation of an FCPE

Where there is a cash-out after five years, the investment is tax-free, and only social security contributions of 17.2% are due on the profit made.

There are 14 cases where one can cash out their investment and profit during the five-year lock-in period. Examples of these cases include the end of an employment contract, buying a main residence, wedding/divorce, the birth of a third child, setting up or taking over a business, disability, death, over-indebtedness, domestic violence, and purchasing a low-emission vehicle.

Tax Benefits for FCPEs

As part of the company saving plan (*Plan d'Epargne Entreprise*), FCPEs benefit from a favorable tax and social framework for both employees and employers.

For employees, voluntary and compulsory profit-sharing plans, as well as the company's matching contributions, are exempt from income tax as long as they comply with the annual legal limit. These investment sources are also exempt from employee social security contributions, though they remain subject to the CSG and CRDS (two special social contributions), levied at a combined rate of 9.7%. Furthermore, the capital gains and dividends generated by the shares held in the FCPE are tax-deferred upon selling the shares. There is also no taxation on the discounted shares acquired through the FCPE. Upon withdrawal, only the social contributions (currently 17.2%) apply.

From the employer's perspective, FCPE-based employee shareholding is equally advantageous. The matching contributions paid by the company and the advantage resulting from a price discount are fully deductible from its corporate income tax base. Moreover, unlike traditional compensation, these contributions are exempt from standard employer social security charges. Since January 2024, a social tax (*forfait social)* of 10% applies to the company's matching contributions.

Governance

The employee-owners of the FCPE are represented by a supervisory board. The supervisory board is composed equally of representatives of employee shareholders (i.e., those who have invested in the fund) elected or appointed (by the Social and Economic Committee or among the trade union delegates) and representatives appointed by the company.

The chair of the supervisory board must be chosen by the members of the board from among the employee representatives. The supervisory board annually reviews the administrative, accounting, and financial management of the FCPE and reports to the shareholders. It participates in important decisions in the life of the fund, in particular the definition of the management direction, exercises the voting rights attached to the shares of the shareholding funds, and has extensive powers regarding the management company, the custodian, and the fund's auditor, who are required to comply with its convening notice. It may refer matters to the Financial Market Authority and may also take legal action to defend or assert the rights or interests of employees who hold shares. Its members are entitled to economic, financial, and legal training. However, they do not have any responsibility for the actual financial management carried out by the management company as part of the fund's settlement. Regular information, especially on changes in the value of the fund's share (net asset value), must also be provided to investors.

Business Succession

The *FCPE de reprise* is a powerful but rarely used tool for employee-led business succession in France. It allows employees to collectively acquire a significant stake in their company during a transfer, often through a holding structure and with the support of employee savings. There have been only three employee buyouts via *FCPE de reprise*: La Redoute, a retail company, in 2015; Carbone Savoie, a manufacturing company, in 2017; and Les Zelles, a manufacturing company, in 2021. At Les Zelles, all employees were offered the opportunity to invest, becoming the company's largest shareholder (39%), thanks to strong incentives and a clear governance structure.

Compared to a standard FCPE, the *FCPE de reprise* is more restrictive but also more transformative. Voluntary payments are capped at one year of gross salary (vs. three months in FCPEs). The sums invested in the *FCPE de reprise* must be held for the entire duration of the employee buyout operation, with a minimum holding period of three years, and can be freely withdrawn once the transfer is completed. Only three cases of early release are allowed: death, disability, and retirement (versus 14 in FCPEs). The supervisory board is composed solely of employee unit-holders, giving them direct oversight and decision-making power.

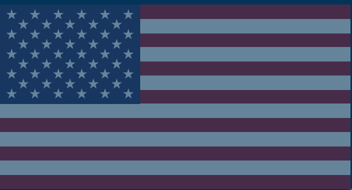
Their scarcity is surprising, especially given their potential. This is likely due to the limited awareness among financial professionals, combined with legal uncertainties and the small number of real-world examples. One practical obstacle is that employees retain their shares even after leaving the company, which may deter companies concerned with governance complexity and long-term share circulation. Increasing visibility, clarifying the regulatory framework, and providing technical support would help unlock their broader use.

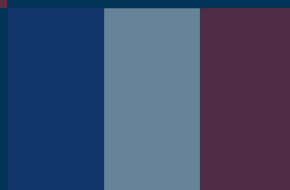
Conclusion

FCPEs represent a uniquely French approach to employee shareholding, combining favorable tax incentives with collective investment through company saving plans. While FCPEs offer limited governance rights to employees and typically involve minority stakes, they provide employees with significant long-term capital gains and are increasingly used in privately held companies.

5

The Slovenian Cooperative ESOP





5 THE SLOVENIAN COOPERATIVE ESOP

Tej Gonza

The Slovenian cooperative ESOP model is based on a cooperative legal entity that holds shares and facilitates financing employee buyouts through financial leverage. Since 2024, the model has been recently defined in the Employee Ownership Cooperative Act (the "EOC Act") by the government and, as of this writing, has strong prospects for success by the end of 2025. The model is a hybrid structure, adopting structural solutions from the UK EOT (a special-purpose vehicle for employee ownership, with a capital gains tax incentive for sellers to the EOT), the US ESOP (share-based individual capital accounts [ICAs] with tax incentives for sellers and companies plus special tax treatment for employees), and Mondragon worker cooperatives.[1] Additionally, the model introduces novel features that have been proposed as solutions to long-standing employee ownership issues.[2] The main features of the Slovenian cooperative ESOP model are:

The Slovenian cooperative ESOP model is a hybrid structure, adopting structural solutions from the UK EOT, the US ESOP, and Mondragon worker cooperatives.

- Ensuring "second-degree" democratic governance through a cooperative legal entity instead of a trust (second-degree governance is explained below).
- Two types of individual capital accounts (ICA) are allowed: share-based ICAs, as with US ESOPs, and value-based ICAs, as with Mondragon cooperatives.
- A structure allowing a combination of a collectivized and individuated capital structure with further limitations on ICA valuations to ensure sustainability.
- A rollover mechanism that uses the free cash flow of the operating company to continuously repurchase the ICA shares or nominal value from the members, removing the stochastic nature of the repurchase obligation.
- Institutional or legislative carrots and sticks provided by the anticipated EOC Act, which should incentivize ESOP conversions and disincentivize the sale of the ESOP stock.

Below we explain the main features of the Slovenian cooperative ESOP model as implemented in pilot projects in private businesses and embodied in anticipated legislation.

Ensuring Participatory Structure: Cooperative Legal Entity

The Slovenian cooperative ESOP model uses a cooperative rather than a trust as the legal entity of the special purpose vehicle. We call the special purpose cooperative an employee ownership cooperative

1. Mondragon Group is a "second-tier cooperative" (a cooperative of its cooperative members). Its members are mostly but not only worker cooperatives, close to 100 of them. Members of worker cooperatives have individual capital accounts that reflect the net asset value of the coop, not the financial value a prospective third party would pay based on earnings and assets. Governance is based on one member, one vote.
2. In terms of the structure, a rollover mechanism under which the repurchase obligation is continuously repaid is a novelty; in the legislative sense, the tax clawback, where upon the sale of the ESOP stock tax benefits must be returned, is an innovative feature.

(EOC). Unlike the US and the UK models, where employees are merely beneficiaries of a trust and have only a limited degree of governance rights, the Slovenian cooperative model creates a second-degree democratic governance structure by design. In this way, the Slovenian model tries to align the financial component with control and influence, which, as research underscores, is vital for the productivity and resilience benefits of employee ownership.

Second-degree democratic governance creates both democratic governance at the cooperative level and proportional governance representation at the operating business level. The cooperative represents the employee interests at the board level. Each worker-member has one vote in the EOC. The vote ensures the right to select the EOC representatives (depending on the size, either a president or a board of three to five members) and to vote on strategic issues such as profit distributions, investment and employment decisions, and so on. The cooperative representatives participate in the shareholder assembly on the level of the operating company and do so in proportion to the relative size of the stock held by the EOC. Workers already have a say over some of the structural rules during the incorporation of the EOC, ensuring a chance for workers to democratically participate (through elected representatives) in the EOC's founding phase and define internal rules in a way that best fits their personal interests and the needs of the business. A few choices for the first cohort of workers creating the EOC's internal rules concern ICA distribution rules (whether they are egalitarian, based on tenure, or wages), the type of capital accounts, the structure of the EOC's governing bodies, and various other issues that are not mandated by law.

Creating an Efficient Incentive Structure: Share-Based and Value-Based Individual Capital Accounts

ICAs in employee-owned firms serve as a fundamental mechanism for aligning individual financial incentives with collective enterprise performance while reducing incentives to sell the company, especially if structured properly. There are three types of accounts in the EOC: a suspense account, ICAs, and a collective account. The suspense account indicates the remaining acquisition debt—the external liability to the seller, a commercial bank, a private fund, or a combination of creditors. ICAs track the members' share of the firm's capital value, which grows when the acquisition debt is repaid, when profits are retained, and, in some cases, when workers provide capital contributions. Each worker-member has their own ICA that represents the capital claim for that individual worker. A collective account holds a capital value that is un-individuated.[3]

There are two types of ICAs: share-based ICAs (as found in the US ESOP model) and value-based ICAs (as found in the Mondragon model). In the Slovenian cooperative ESOP model, the EOC's founding members decide on the type of ICA.

Share-Based ICA

In the ESOP model, the suspense account holds unallocated internal shares, which, initially, when no acquisition debt has been paid off, represent the value of the EOC's assets. The number of internal shares may be arbitrarily decided (e.g., 1 share of the underlying company = 100 internal shares). The unallocated internal shares are vested in ICAs when the EOC starts repaying the acquisition debt and are allocated proportionally to the amount of debt paid off. Workers may already receive a share of the capital growth during the vesting phase: for every euro of debt being repaid, a corresponding number of shares is allocated from the suspense account to ICAs. The value of internal shares in the suspense account is fixed at purchase, while the value of shares in ICAs reflects the *current* value of the EOC stock, meaning that the allocated internal shares may have a higher value if the business grows in the meantime.[4]

3. The collective account reduces the total capital claims by individual members; the function of this is explained below.
4. The shares may have already changed in value during the vesting period, so workers may have a greater or lesser value of internal shares in their ICAs for every dollar of acquisition debt paid off.

Note that the way stock is valued under the Slovenian model is different than the model for US ESOPs. That difference is explained below.

Take a hypothetical employee-owned business where the EOC holds 100% of the stock. The stock was appraised at €100,000 in the current year (t). In the EOC, that stock is represented by 1,000 internal shares (equity on the balance sheet). The acquisition debt is paid off in full, meaning that 1,000 internal shares are allocated among ICAs, where 10 EOC members hold 100 internal shares each; since one internal share is worth €100, each worker has €10,000 worth of capital claim on their ICA (assuming that the distribution rule allocates the same amount to each employee) (table 5-1).

Table 5-1. Share-based ICAs

Year	EOC stockholding	Allocation of EOC internal shares
First year (t)	100% stock (€100,000)	1,000 internal shares (€100,000) (10 ICAs with 100 internal shares each)
Following year (t+1)	100% stock (€110,000)	1,000 internal shares (€110,000) 10 ICAs with 100 internal shares, plus 1 ICA with 0 internal shares

When the internal shares are vested, they change in value (appreciate or depreciate) based on the changes in value of ESOP stock. Say that in the next year (t+1), the business employs one new worker who becomes an EOC member, and the value of the company grows by 10%. The total value of the EOC stock increases by €10,000; thus, the value of internal shares increases by €10,000. Each internal share is now worth €110. How is capital growth allocated among workers? Each of the 10 initial members still has 100 shares, meaning that they each now have €11,000 of capital value, while the new member did not participate in capital growth because they do not have any internal shares in their ICA.[5]

5. In the Slovenian cooperative ESOP model, the rollover helps new workers to come to internal shares faster than it generally happens in the US ESOP.

Value-Based ICA

In value-based ICAs, workers do not receive internal shares allocated to them. Rather, their capital claim is measured in value. In a share-based system of ICAs, the internal shares are allocated to members' accounts based on the allocation formula, such as tenure, equal allocations, relative pay, or some other formula the company chooses that complies with legal requirements. In value-based ICAs, the same formula determines the distribution of value among ICAs. When the acquisition debt is repaid, the total value of the debt repaid is divided among the EOC members based on that formula (in the same way as in share-based accounts, but without having internal shares distributed).

In the hypothetical example introduced above, the EOC continues to hold 100% of the stock of the underlying business. Again, the stock is appraised at €100,000 in the current year (t) with the acquisition debt paid off. But instead of internal shares, the passive side of the balance sheet shows only a capital value of €100,000 assigned to ICAs of 10 members. Each member has €10,000 assigned to their ICA. So far, the outcome is the same (table 5-2).

Table 5-2. Value-based ICAs

Year	EOC stockholding	Allocation of EOC internal shares
First year (t)	100% stock (€100,000)	Capital claim by EOC members (€100,000) (10 ICAs, each showing €10,000 of capital claim)
Following year (t+1)	100% stock (€110,000)	Capital value (€110,000) (11 ICAs: 10 ICAs with €10,910, 1 ICA with €910)

The main difference is in how the capital gain from the growth of the value of EOC assets is distributed among EOC members. In share-based accounts, growth of the value of EOC assets (company stock) leads to the appreciation of internal shares, while in value-based accounts, the growth of capital value is distributed directly to all active members through their ICAs. As in the example above, in year t+1, the business employs one new employee, and the value of the company grows by 10%. The total

value of the EOC stock increases by €10,000. How is capital growth allocated among workers? Now €10,000 is divided among all active ICAs (based on the distribution formula). In the case of equal distribution, each member receives €10,000 /11 = €910. All 11 workers receive a share of the value they created.

Reducing the Repurchase Obligation

Studies have pointed to common challenges with repurchase obligations faced by US ESOPs. The Slovenian cooperative ESOP model introduces four distinct structural features that should help with the management of the liquidity demands on the employee-owned business.

ICA Valuations

The anticipated EOC Act suggests detaching the initial buyout stock price and the valuation of ICAs, that is, the equity value of the members in the EOC. In the ESOP model, the value of ICAs is generally attached to the value of stock held by the ESOP trust based on the appraised fair market value. The legislation proposes changes that should help address some of the problems with high ICA valuations while maintaining the initial incentive for owners to sell to the EOC.

The law tries to decrease the setup costs by allowing business owners to sell their stock without external valuations if the price per share is equal to or below the accounting value of the operating company (net asset value or NAV) divided by the number of shares ($P \leq NAV/Nshares$); if the seller wants a higher or a fair market price, the shares must be valued by an official appraiser.

The law anticipates a limitation on the value of ICAs to decrease the repurchase obligation. The limit is defined so that the value of total ICAs can be at most equal to the current NAV plus the difference between the stock price at initial purchase and the NAV at initial purchase ($\sum ICA \leq NAVi + Pt\text{-}NAVt$).

For example, say that EOC purchases 100% of the stock of the operating company for €1 million, where the NAV at that time is €800,000. The value of ICAs will be limited to NAV at any given time plus €200,000 (Pt – NAVt).

The valuation of ICAs is different because stocks become unmarketable, so other valuation considerations must be considered. There are a few anticipated consequences. Firstly, it should help to decrease the repurchase obligation over the long term. Secondly, it may introduce an additional incentive to sell the stock to external investors (limitations on ICA values increase the premium workers would get for the ESOP stock on the open market). This potential drawback is partially addressed by the tax clawback clause discussed below.

A Collective Capital Account

The Slovenian Cooperative ESOP model sits between the US ESOP, which insists on full individuation of capital value for ESOP beneficiaries through ICAs, and the UK EOT model, which insists on full collectivization of capital value. The combination of ICAs with a collective account, which follows the Mondragon example, should help decrease the repurchase obligation for companies that might not be able to finance the full capital value through available cash flows.

A collective account decreases the repurchase obligation by collectivizing part of the capital value on the EOC's balance sheet. That is, it reduces the total capital claim by individual workers that must be eventually paid out, either upon the departure of workers or during their tenure with the employee-owned business (see the rollover system below). Each stakeholder group setting up an EOC, according to the upcoming legislation, can decide independently on the balance between ICAs and the collective account. Mondragon cooperatives generally have a balance of 70% individual accounts and 30% collective accounts, which means that 30% of the total capital value of an individual cooperative is collectivized, unclaimable by the members, serving as a self-insurance policy to ensure the individuated capital value will eventually be paid out. For example, if the total capital value distributed to ICAs is €1 million but the company has, say, €100,000 of

free cash flow annually on average, it would take 10 years to pay out the total value of ICAs. If the EOC members decide to collectivize 30% of the total capital value, it means that the total value of ICAs now is decreased to €700,000, meaning that the total value of ICAs can be repurchased in 7 years rather than 10.

Like the valuation considerations, collective capital accounts help to reduce the long-term strain on the cash flow for the operating companies by reducing the total value that needs to be paid to departing workers periodically.

The Rollover System

The rollover mechanism, also known as the revolving fund plan, is a method for redeeming allocated equity based on the age of the equity, using a first-in, first-out (FIFO) order. The rollover systematically redeems accumulated capital value, ensuring that the members' claim on retained profits is paid in subsequent years. It is a relatively novel feature of the capital structure and should help with managing the repurchase obligation in employee-owned firms.

In the US ESOP model, the value of shares in ICAs is paid to beneficiaries upon departure from the company (or partially, when diversification is allowed), which may introduce problems with financing that obligation. The rollover in the Slovenian model tries to address this by determining the repurchase obligation based on the company's liquidity conditions rather than having the company adjust liquidity based on the externally imposed repurchase obligation.

In the Slovenian cooperative ESOP model, the repurchase obligation is not imposed on the decision about the profit allocation; on the contrary, the decision on the profit allocation, as proposed by the board and confirmed by the shareholder assembly, determines how much of the cash a given employee-owned business can afford to dedicate to paying out the capital claim by the workers, as accounted for by ICAs. Figure 5-1 illustrates the functioning of the rollover mechanism. It shows two value-based ICAs, where each of the two holders (EOC members) previously accumulated 90 euros of capital value in

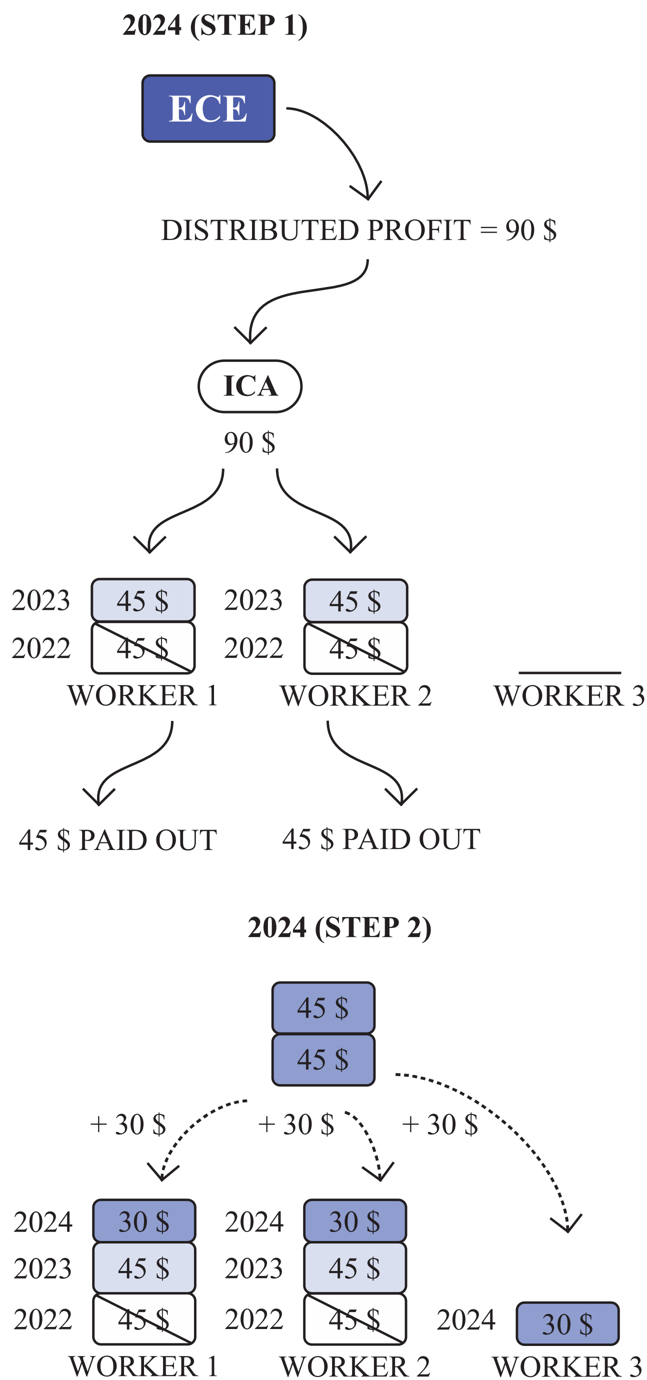


Figure 5-1: Two steps of the rollover mechanism (source: Tej Gonza, "Comparative Analysis of Organizational Structures of Employee Centered Enterprises" [PhD diss., University of Ljubljana, 2024], 342–43).

the past two years, and a third worker joins in 2024. Assuming that the acquisition debt has already been paid for, the EOC contribution—the annual cash flow that the operating company dedicates to the EOC for the rollover—now pays off the oldest values on the ICAs. If the board and shareholders decide that

90 units of profits will be used for a rollover, what happens? First, the cash is transferred to the EOC. Second, we look at how much of the obligation this cash can repay (based on the FIFO method). Each worker has €45 allocated in 2022, the oldest existing ICA values. Third, the 90 euros is used to pay off the 2022 accounts of both workers, who get 45 euros each. Fourth, the 90 euros of capital value must now be reassigned among all the active accounts, with new date designations (2024). Since there are three active accounts now, each receives 30 euros of capital value (assuming an equal distribution rule).

The rollover mechanism creates a system where new workers buy into the capital value by using their share of profits to pay off the older workers. In this way, the mechanism serves a few important functions for the sustainability of employee ownership. First, it gets rid of the stochastic element of the repurchase obligation (exits from the EOC do not trigger repurchase obligations) and helps to control repurchase obligations in situations with low liquidity at the level of the operating company (e.g., due to a crisis or an investment cycle), both of which have proved to be a structural shortcoming of the US ESOP model. Second, the rollover tends to distribute capital value more equally between the members with different tenures, securing faster access to cash for workers with shorter investment horizons and reducing financial risk for older workers.

Penalties for Irregular Terminations of EOC Membership

There are two types of departures from an EOC. Regular departures or terminations of membership in the EOC happen due to retirement, job change, or departures due to death or disability. Irregular departures would happen if a member terminated their membership while keeping the job at the operating company.

The proposed EOC law requires that the ICA's full value is paid out to departing workers based on the rollover schedule; however, penalties are imposed on irregular EOC membership terminations. This is to disincentivize irregular terminations by requiring that workers receive their accumulated ICA value if they leave the EOC while still employed. Instead, they receive only a nominal value of the mandatory share.

There are no good reasons to leave the EOC while employed since departure does not trigger the repurchase obligation. The only possible reason would be due to a speculative bet on the company's future: if it incurs losses in subsequent periods and the ICA values fall, that worker would benefit from anticipating a crisis, a liquidity problem, or a different situation that would negatively affect the value of ICAs. The main reason for the penalty is thus to prevent speculative exits.

Carrots and Sticks of the Anticipated "Employee Ownership Cooperative Act"

The proposed EOC Act (*Zakon o lastniški zadrugi delavcev*) would embody the Slovenian cooperative ESOP model in Slovenian law. The act, which was proposed by the Ministry of Solidarity-Based Future and the Ministry for Labor of the ongoing Slovenian government, introduces a few institutional incentives and disincentives that should help to maintain employee ownership once a business converts to an employee-owned business.

Fiscal Carrots

There are three types of incentives that are proposed by the current version of the law: incentives for selling ownership, incentives for lowering the cost of capital for financing leveraged buyouts, and incentives for participating workers.

The first group provides tax incentives for selling owners, who will be able to reduce the capital gains tax by five percentage points if they sell the stock to an EOC rather than an alternative buyer. In Slovenia, this might be an ineffective incentive because the capital gains tax rate falls to 0% after 15 years of asset holding. Unfortunately, so far, no additional solutions have been proposed to address the limited incentives for sellers.

The most important tax incentive is aimed at decreasing the cost of EOC financing. The EOC

contribution—the cash transferred by the operating company to the cooperative—is defined as a labor expense and is tax-deductible for the operating business, while it does not represent a taxable income for the EOC. The logic is that the government incentivizes the creation and maintenance of employee ownership. The tax break is applied both for the financing of the initial acquisition debt and for the rollover, which keeps ownership in the hands of the current generation of workers.

The payouts to EOC members are not taxed with social contributions (what are called social insurance or payroll taxes in other countries) and income tax but rather are taxed as capital gains. During membership in EOC, payouts are taxed as dividends to members (rollover payouts); however, when a member leaves the EOC, their mandatory share is valued based on the value of the member's ICA, and the difference between the initial price of the membership share and the exit price is a capital gain, taxed with a capital gains tax.

Regulatory Sticks

The structure of the model cannot ensure the sustainability of employee ownership in the market economy on its own. Additional regulation is required to ensure that the basic standards of employee ownership are maintained and that the tax benefits are not abused outside of the purpose of the EOC Act.

To receive special tax status, an EOC must include in membership at least 85% of all eligible employees, which should be all employees who have been with the company for at most a year (the "membership eligibility" period can be shorter). A one-time obligatory membership share price is limited by law to €300, trying to ensure equal access to membership (workers can contribute voluntary shares to raise additional capital and decrease the need for debt, but no financial nor control rights are attached to voluntary shares). The EOC's internal rules must ensure democratic governance, where each EOC member has one vote in the general assembly. Additionally, the EOC Act limits maximal differences in profit distribution to in-firm wage differences (other proxies for determining distribution rules may be used), while the maximum profit distribution ratio is set to one to eight.

Next, it is important to prevent decapitalization of the operating company through tax-deductible EOC contributions. For that reason, EOC contributions present a tax-deductible labor expense within reasonable limits. While the US legislation allows that ESOP contribution can be equal to up to 25% of total labor costs (or at most 50% in some cases), we tried to find a better solution than this arrangement because it (1) discriminates against capital-intensive businesses and (2) provides no distinction in tax benefits based on the degree to which the ESOP owns the company (e.g., a US C corporation with a 30% ESOP gets the same corporate income tax deduction as a C corporation with a 100% ESOP). The EOC Act provides for a different arrangement, which ties the corporate income tax deduction to the multiple of EBIDTA and the percentage of stock by EOC. For example, if the EOC holds 30% of the total outstanding shares, the business can transfer up to 30% of annual EBIDTA to the EOC, pretax.[6]

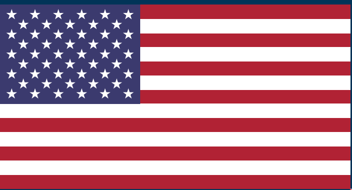
The EOC contribution as a tax-deductible expense is additionally conditioned by the so-called tax clawback clause. The tax clawback clause states that if the ESOP stock is sold to an external buyer, the EOC must return the total value of tax deductions on the received contributions that have been tax-deductible. In Slovenia, the corporate income tax rate is currently at 25%. Say that an EOC received €10 million of ESOP contributions over the past 10 years, meaning that it also received €2.5 million of tax breaks from the government. If workers decide to sell the stock to an external buyer, they also have to return €2.5 million to the government before sharing the sale proceeds (if they sell half of the ESOP stock, they need to return a proportional amount of tax breaks, €1.25 million in our example). This tax clawback is anticipated to disincentivize ESOP terminations. Additionally, the EOC Act tries to dis-

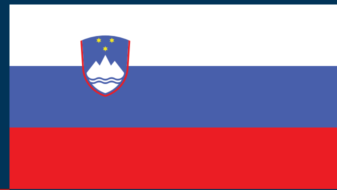
6. There are additional limitations in the legislative proposal. For example, there is a bottom limit to the debt-to-capital ratio that cannot be exceeded with the EOC contribution; the logic is that the EOC contribution should not eat into the capital of the underlying firm.

courage stock sellouts by requiring a large majority of 75% of all members to agree on the sale of the ESOP stock, requiring a high level of agreement among members for decisions that could threaten the sustainability of employee ownership.

Appendix

Country-by-Country Comparison Table





APPENDIX: COUNTRY-BY-COUNTRY COMPARISON TABLE

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
What kinds of companies typically use these plans?	Established companies with owners looking to do a partial or complete ownership transition. A minority of plans are used by companies simply to share the wealth employees help create.	Small to medium-sized private companies, with some larger companies.	The Canadian EOT is intended for the succession of established, privately held companies. A majority of the equity in the company and governance control are transferred to the trust to qualify as an EOT.	Universal and adaptable tool for all companies—public or private, regardless of size—built upon France's mandatory profit-sharing scheme covering every company with more than 10 employees.	The model is still in the pilot phase. However, different types of companies have converted so far. Based on surveys, appropriate companies are from different sectors and different sizes, but mostly small and medium-sized enterprises (the biggest company showing interest so far is an industrial company with 1,500 workers).
Primary uses	1. To be a new owner of the business, often when the current owner wants to retire. 2. Providing incentives and rewards broadly to the workforce.	1. To provide long-term employee ownership of a company. 2. To provide a business succession solution.	1. To be a new owner of the business, often when the current owner wants to retire. 2. Providing incentives and rewards broadly to the workforce. 3. Ensuring companies remain in local communities and sustain a company's culture and legacy 4. Providing a tax-efficient alternative exit strategy for business owners, especially where no obvious exit is otherwise available.	1. To invest the amounts received through profit-sharing. 2. To promote long-term wealth building.	1. To provide a business succession solution. 2. To motivate existing employees and build organizational affiliation. 3. To attract better talent (employer branding).

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
Tax benefits for company owners	1. Sellers can defer capital gains taxes on selling to an ESOP if they meet certain requirements. 2. The purchase of shares by the ESOP can be funded with pretax dollars from future profits. Stock redemptions outside of ESOPs must be funded with after-tax dollars.	Individuals and trustees can claim complete exemption from capital gains tax, provided the EOT trustee acquires a controlling interest.	1. Sellers pay no income tax on the first $10M (CAD) in capital gains in a sale if they meet certain requirements (currently set to expire at the end of 2026). 2. Sellers can defer capital gains tax to match cash payments for up to 10 years, as long as at least 10% of the gain is recognized each year.	No specific measures.	Still in the pilot phase, so there are currently no tax incentives. The anticipated legislation suggests a 5% decrease in capital gain tax for sellers.
Tax treatment for companies	1. Contributions to an ESOP are tax-deductible, including both principal and interest when repaying a loan to the ESOP to purchase shares. 2. The profits attributable to the ESOP trust in an S corporation ESOP are not taxable. 100% ESOP-owned S corporations thus pay no income tax.	1. Contributions to an EOT are not tax-deductible. 2. EOT-owned companies pay corporate tax in the same way as other companies.	There are no specific measures. EOT-owned companies are generally treated the same as other companies.	Profit-sharing is tax-deductible and incurs lower social security costs than salaries; matching contributions and share discounts are also tax-deductible.	ESOP contributions are tax-deductible as a labor expense when used for two purposes: 1. For the repayment of the acquisition loan, both the principal and the interest payments (justification: social use of profits by building democratic and broad-based employee ownership). 2. For financing the roll-over, which redistributes shares from employees with longer tenure to workers with shorter tenure and pays out the departing workers.

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
Tax treatment for employees	ESOPs are taxed the same way as other tax-qualified retirement plans. Employees pay no tax on the contributions to the trust until they receive a distribution of their account balances, generally after termination of employment. Taxes can be further deferred on any amount rolled into another retirement account.	1. All-employee bonuses are exempt from income tax (but not national insurance contributions) up to £3,600 per employee per tax year if paid on a "same terms" basis by an EOT-controlled company. 2. Distributions to employees from an EOT (if ever made) must be on a same-terms basis and are taxed as earned income (income tax and national insurance contributions).	Payments to employees by the EOT maintain their character for tax purposes. E.g., if a dividend was paid to the trust by the company, employees receiving their share of that dividend as an income distribution from the trust will have the distribution treated as a dividend for tax purposes, not as ordinary income.	Profit-sharing, matching contributions, and discounts are tax-exempt; only capital gains and dividends are taxed at 17.2%.	1. During employment with the firm, payouts from the ESOP cooperative are treated and taxed as dividends (the current dividend tax rate is 25%). 2. Upon exiting the coop-ESOP, the difference between the initial price of the membership share and the exit price of the membership share, which is valued based on the system of individual capital accounts, is the capital gain and taxed as such (the current capital gains tax rate starts with 25%, after five years of possession falls to 20%, after ten years to 15%, and after fifteen years to 0%).

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
Who must be plan beneficiaries	Generally, at least all employees who work 1,000 or more hours in a plan year, have a year of service, and are age 21. Companies may choose to include employees earlier. Some segments of the workforce may be excluded.	1. All employees, whether part-time or full-time, must be EOT beneficiaries on a same-terms basis. This is subject to an optional qualifying period of employment up to 12 months and some exclusions for current or former equity owners. 2. Former employees and others, e.g., a spouse of a deceased employee, may benefit in limited circumstances.	1. All employees who have completed a probationary period of up to 12 months must be included. There are some exclusions for employees who are current or former equity owners. 2. Former employees may also be included as beneficiaries.	All employees with at least 3 months of seniority are eligible to participate. Investment is voluntary, even though a unilateral contribution is possible.	1. The principle in the pilot stage is to include everyone, but nobody can be forced to join the coop-ESOP. To allow everyone to join, the membership fees are generally very low (around 10% of the monthly average wage). 2. The anticipated legislation also encourages everyone to get involved by putting a maximum limit on the membership fee of €300, while tax incentives are granted only to coop-ESOPs that include at least 85% of all workers who have been in an employment relationship with the company for more than a year.

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
How beneficiaries receive benefits	Employees get an allocation of annual company contributions to the plan based on their relative compensation among eligible employees or a more level formula. Pay over a certain amount ($350,000 in 2025, indexed annually) does not count.	1. No allocations of equity in the EOT are made to individual employees. The EOT trustee holds its shares permanently on behalf of all current and future employees. 2. A company's profits are typically shared with employees through cash bonus plans operated by the EOT-controlled company. 3. A small proportion of EOT-controlled companies also operate one or more share or share option plans as financial incentives for executives and/ or all employees. The UK's tax-advantaged plans allow profits to be paid out tax effectively as capital gains (rather than earned income).	1. Employee beneficiaries may be allocated rights to shares in individual capital accounts, dividends, or both. Allocations are determined by a formula that can take into account hours worked, compensation, a period of employment, or a combination of these. No other factors may be considered in the distribution formula. 2. Compensation over a certain amount must be excluded from the distribution formula (twice the highest tax bracket, which is $253,414 CAD as of 2025). 3. EOTs can (but do not have to) include up to four distribution formulas—two each for employees and former employees (one for income allocations and one for capital allocations).	1. Employees subscribe individually, and allocations depend on their voluntary and incentivized investment through profit-sharing and matching contributions. 2. Employees buy units in an FCPE (a mutual fund), which holds company shares. Benefits accrue via capital gains and reinvested dividends.	1. The coop-ESOP allows a hybrid capital structure; in the founding phase, workers may decide on the balance between collective capital accounts and individual capital accounts (from 0% individual to 100% individual capital value). 2. Distributed profit is shared with workers through the rollover system, having the function of repurchasing the oldest values assigned to individual capital accounts (there is no simple dividend sharing; all distributed profit goes through the rollover system).

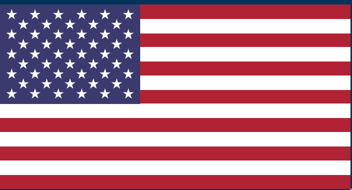
	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
When do equity allocations or awards become non-forfeitable (vest)?	Vesting must be complete after six years of service. A year of service is 1,000 hours in a plan year or, if the company chooses, a smaller number.	1. There are no equity allocations by an EOT. An EOT-owned company typically pays one or more all-employee cash bonuses each year. 2. If there is a separate share or share option plan, vesting will vary according to the plan.	EOTs that include rights to equity determine vesting on a case-by-case basis in trust documents. There are no legislative guidelines or requirements.	At inception.	In the initial phase, the vesting of internal shares or capital value to the individual capital accounts is proportional to acquisition debt paid off. After the acquisition debt is paid off, vesting happens through rollovers, meaning that the profits assigned to younger members are used to "purchase" internal shares from older workers, leading to continuous reallocation of capital value between accounts.
When do employees get paid for their ownership share?	1. Distribution of account balances for employees generally must start no later than one year after the end of the plan terminations due to death, disability, and retirement. 2. Otherwise, distributions generally must start no later than the sixth plan year after the plan year of termination.	An EOT does not involve any repurchase obligations. Company profits are available to pay out as cash bonuses and (if the EOT-controlled company has a stock or stock option plan) to finance a limited internal share market.	EOTs that include rights to equity determine payment for shares on a case-by-case basis in trust documents. There are no legislative guidelines or requirements.	Employees are paid when they decide to sell. Investments are locked in for 5 years but can be sold earlier under 14 predefined cases (death, disability, family events, housing, etc.).	The rollover system creates a structure where employees are paid off based on a schedule; each worker has their individual capital accounts, where internal shares or value are assigned in bundles with designated dates. When there is free cash flow coming to the ESOP and all the other obligations are covered, the cash flow is used to pay for the oldest bundles on individual capital accounts. The exit of a member does not trigger a repurchase obligation, so if there are no free cash flows, workers must wait to be paid off (it could be years).

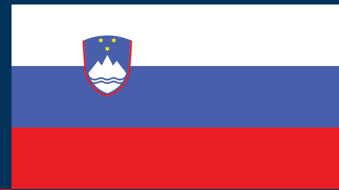
	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
Governance	The ESOP trust is the legal shareholder. The trustee is appointed by the board. The trustee votes the shares. In private companies, employees have limited voting rights unless the company chooses to provide greater rights.	1. The EOT trustee is the legal shareholder. It must hold a controlling interest to qualify for EOT tax exemptions. It must exercise its rights in the interests of the EOT's beneficiaries to provide long-term employee ownership of that company. 2. The trustee must be a UK tax resident. It is typically a company established to act as the trustee of a specific EOT, with a board elected or selected to balance the interests of both management and workforce. Former significant shareholders cannot control the trustee board. 2. Major decisions may require special procedures to be followed, including employee consultation.	1. The EOT must control the operating company in a qualified EOT structure. 2. Each trustee must be either a Canadian-resident licensed trust company or an individual (other than a trust). At least one-third of the trustees must be currently employed beneficiaries. The former shareholders (together with non-arm's length persons) generally cannot represent more than 40% of the trustees. 3. Each trustee must have an equal vote in the conduct and affairs of the trust. 4. The EOT elects the board of the operating company, and the 40% rule defined above also applies to the board of the operating company.	The FCPE is managed by an asset management company with fiduciary responsibility, while it is supervised by a supervisory board where unitholders' representatives vote in an annual general meeting. The election of unitholders' representatives is made according to a conventional rule of one unit equals one vote.	The members of the coop-ESOP democratically elect their representatives (depending on the size, either a president or a board) on the cooperative level (one-person, one-vote on the first level), and that representative then votes on the shareholder's assembly at the level of the operating company proportional to the stock held by the coop-ESOP (with a conventional corporate governance structure on the second level).

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
Valuation	The ESOP trust cannot pay more than fair market value, defined as what a willing financial buyer would pay for the percentage of the company the ESOP trust is purchasing. The trustee hires the appraisal firm. Appraisals must be done annually.	1. The EOT trustee must check it is not agreeing to pay more than market value for shares. 2. Market value is a well-established concept, partly because HM Revenue & Customs provides advance approvals of market value for tax-advantaged share plan purposes. 3. No recurring valuations of the EOT's shares are needed because there is no internal share market for those shares.	The sale of a company to an EOT is expected to be an arms-length transaction, with the trustee acting in the fiduciary interest of the beneficiaries of the trust. There are no guidelines or regulations regarding valuation specifically.	Stock prices in public companies and annual valuation by an independent appraiser in privately held companies.	The anticipated legislation puts an upper limit to the value of individual capital accounts at the accounting value of the operating company (that is, proportional to the share of the stock at the coop-ESOP), so workers may collectively claim at most the net asset value of the operating company (proportional to stock held by coop-ESOP), or less if they introduce a partial collective account.
Costs	1. ESOPs generally cost between $100,000 and $300,000 to set up but can cost more in larger and complex deals. Nonleveraged ESOPs have much lower setup costs. Costs are generally less than the costs of selling to a third party. 2. Ongoing annual costs are about $20,000 to $30,000 for most ESOPs, with costs going up with size.	1. The total costs of implementing an EOT as a succession solution vary considerably according to circumstances and objectives. They are around £40,000-£60,000 (plus VAT) for a typical small-medium sized business, assuming no bank loan. 2. Ongoing costs are negligible except for any independent director's fee.	As EOTs are very new in Canada, it is too early to estimate costs.	Setup costs are about €50,000, with annual costs ranging from €25,000 to €50,000 depending on the fund's size.	In the pilot phase, the cost of setting up an ESOP (with a preliminary educational program on ownership culture and financial literacy) is between €15,000 and €50,000, depending on the size of the company. In the future, when processes may become more standardized, the cost may decrease.

	ESOPs (US)	EOTs (UK)	EOTs (Canada)	EOF (France)	ESOP (Slovenia)
Financing	ESOPs are paid for by the company, not the employee. ESOPs can be financed by annual cash contributions to the plan in a gradual sale, or by using leverage when the ESOP buys more up front. ESOP loans can come from seller notes, banks, and/or mezzanine lenders.	1. Sellers are typically paid in installments over several years funded by company contributions to the EOT, not the employees. 2. An EOT must acquire at least a controlling interest if the contributions are to be tax-free receipts by the trustee. 3. A bank loan is sometimes raised by a company (occasionally the trustee) to accelerate payments to sellers. 4. There are no repurchase obligations that require further finance.	Financing of the initial transaction uses a combination of financial institutions and seller loans. It is too soon to know whether the level of external financing in Canada will be similar to the UK (very little) or the US (significant).	Primarily funded by employees (salary deferrals and/or a portion of profit-sharing funds) plus optional company contributions (matching contributions; discretionary non-matching contributions; or share price discounts, such as 30% off).	Sales to the employee ownership companies can be funded by seller notes, bank loans, employee contributions, or a combination of these.
Complexity	ESOPs are subject to detailed federal rules and require that the company devote internal resources to compliance. Setting up an ESOP is similarly more complicated than other employee ownership plans, but less complicated than a sale to another company.	1. There are some areas of complexity in using an EOT as a buyout vehicle, for example, to ensure compliance with the EOT capital gains tax exemption requirements and tax-free contributions into the EOT. 2. EOTs are relatively straightforward to maintain once established. They operate mostly within general trust and company law. 3. Once a company is EOT-controlled, it is usually straightforward for it to operate an income tax-fee bonus plan.	EOT transactions are relatively straightforward, similar to the UK's EOT. There is some additional complexity, if the EOT so chooses, regarding how benefits are allocated to beneficiaries. The capital gains tax incentive (set to expire at the end of 2026) has restrictions that make its application complicated in many instances.	The complexity is outsourced to a regulated asset management company, allowing for a standardized offer of the FCPE.	The central idea behind the coop-ESOP is to decrease complexities while maintaining a capital structure that ensures healthy investment incentives and organizational sustainability. The most complex part of the process is to educate the stakeholders in conversion (owners, managers, and workers) about the main principles of the model, which is done as part of the financial literacy course. The administrative and legal setup is not complex and has low costs.

About the Authors





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Tej Gonza is the cofounder and director of the Inštitut za ekonomsko demokracijo (IED), an assistant professor at the University of Ljubljana, and an advisory council member at Cankarjev dom. For the past decade, his academic and practical work has focused on participatory forms of business ownership. This includes practical work with businesses, legislative support to the government, research and teaching, and collaboration with European stakeholders and EU institutions on policies supporting employee ownership. He is a two-time recipient of the Rutgers Fellowship awarded by Rutgers University's School of Management and Labor Relations and has received the Changemakers for Democracy fellowship.

Thibault Mirabel is an economist specializing in employee ownership and employee savings schemes in France. He serves as head of research at Equalis Capital, a French asset management company focused on implementing employee stock ownership plans in unlisted companies, and he is also the vice president of Capital Collectif, the first French institute dedicated to research and training in employee ownership. With a strong footing in both academia and the corporate world, he works to connect researchers, businesses, and professional associations to promote a more inclusive and participatory economic model. His work focuses on advancing the understanding and adoption of employee ownership mechanisms as powerful drivers of performance and resilience.

Graeme Nuttall, OBE, has a career-long involvement in employee ownership policymaking and research. He is the international ambassador for the UK Employee Ownership Association, a visiting fellow at Kellogg College at the University of Oxford, an executive fellow at the Rutgers Institute for the Study of Employee Ownership and Profit Sharing, a fellow of Ownership at Work, a trustee of the Institute for the Future of Work and chair of several employee ownership trust (EOT) companies. He was a partner in the European law firm Fieldfisher from 1988 to 2024. Graeme was the UK coalition government's independent adviser on employee ownership from 2012 to 2015. The Employee Ownership Association (eoa) leads the UK's conversation on how people-powered business can be part of the solution supporting more sustainable and rewarding livelihoods that contribute to a more resilient economy and society.

Corey Rosen is the founder of the National Center for Employee Ownership (NCEO). He coauthored, along with John Case, *Ownership: Reinventing Companies, Capitalism, and Who Owns What* (Berrett-Koehler, 2023). Over the years, he has written, edited, or contributed to dozens of books, articles, and research papers on employee ownership. He has been interviewed widely by major media and spoken around the world. Corey received his PhD in political science from Cornell University in 1973, after which he taught politics at Ripon College in Wisconsin before being named an American Political Science Association Congressional Fellow in 1975. He worked on Capitol Hill for the next five years, where he helped initiate and draft legislation on ESOPs and employee ownership. In 1981, he formed the NCEO. He serves on several ESOP company boards.

Jon Shell is the chair of Social Capital Partners (SCP). SCP is an independently funded nonprofit founded in 2001, whose mission is to build a more resilient economy through broad-based ownership and quality employment. SCP has led the advocacy for employee ownership trusts in Canada and led the financing of the sale of Taylor Guitars to its 1,400 workers in the US. Jon was a cofounder and a member of the steering committee of the Canadian Employee Ownership Coalition and is a board member of Employee Ownership Canada and the Canadian Anti-Monopoly Project. Jon invests in promising, scalable startups working on a broader distribution of ownership in the economy through The Ownership Fund. Before joining SCP, Jon cofounded the largest veterinary service providers in both Canada and Australia.

About the NCEO

We are the National Center for Employee Ownership (NCEO), a nonprofit organization that has been supporting the employee ownership community since 1981. Our mission is to help employee ownership thrive. We have thousands of members because we help people make smart decisions about employee ownership, with everything from reliable information on technical issues to inspiration to help companies reach the full potential of employee ownership.

We generate original research, facilitate the exchange of best practices at our live and online events, feature the best and most current writing by experts in our publications, and help employee ownership companies build ownership cultures where employees think and act like owners.

Whether you are considering employee ownership, managing an existing plan, or advising clients, we can help. Our members have access to all of our online resources, and we are committed to providing extensive materials for anyone interested in learning more about employee ownership, from business owners to ESOP participants to journalists to stock plan administrators and other service providers. We welcome everyone to sign up for our twice-monthly email bulletin and to visit our blog.

Our staff covers the nation from multiple locations in the U.S., and our board includes representatives from employee-owned companies and the professional advisors who serve them.

We are supported almost entirely through membership fees and our activities, but we do accept donations, which are tax-deductible (we are qualified as a 501(c)(3) nonprofit charitable organization).

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