

MEMORANDUM

TO: Hon. François-Philippe Champagne, Minister of Finance

FROM: Brian Dijkema, President, Canada
Renze Nauta, Program Director, Work and Economics

DATE: March 30, 2026

SUBJECT: Submission for Budget 2026: Employee Ownership Trusts

WHO WE ARE

Cardus is a non-partisan think tank dedicated to clarifying and strengthening, through research and dialogue, the ways in which society's institutions can work together for the common good.

ISSUE

Employee Ownership Trusts (EOTs) are mechanisms by which employees can collectively own the company they work for.¹ They are most commonly used when a retiring business owner wishes to transfer ownership of his or her business to the employees of the business.

Budget 2023 introduced a legislative framework for transferring ownership of business to EOTs.² A tax exemption providing a \$10-million lifetime capital gains exemption for these transfers came into force on January 1, 2024.³ This tax structure is set to expire on December 31, 2026.

RECOMMENDATIONS

Cardus makes the following submissions for Budget 2026 with respect to EOTs:

Recommendation 1: That the Government of Canada extend the \$10-million lifetime capital gains exemption for business transfers to EOTs beyond its current expiry date.

Recommendation 2: That the Department of Finance study and publish data on the effect of EOTs on productivity, employee retention, capital investment, and business growth.

BACKGROUND

There is a strong case to continue the current incentives for EOTs in the *Income Tax Act*. EOTs are still quite new in Canada, their legislative framework having been introduced only in Budget 2023 and the tax exemption having come into force only on January 1, 2024. It is too soon to draw conclusions from Canadian data about EOTs, but the experience of jurisdictions that adopted them earlier is encouraging. New corporate structures require time for familiarization in the market. The

¹ Government of Canada, "Employee Ownership Trusts (EOT)," <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/budget-2023-made-canada-plan-strong-middle-class-affordable-economy-healthy-future/employee-ownership-trusts.html>.

² Department of Finance Canada, "Budget 2023: A Made-in-Canada Plan," Government of Canada, 2023, <https://www.budget.canada.ca/2023/pdf/budget-2023-en.pdf>.

³ *Income Tax Act*, s. 110.61.

EOT structure remains quite nascent. At best, it would be premature to end the tax treatment of EOTs at the end of this year. An extension is therefore recommended.

RATIONALE

(1) ENCOURAGING EARLY SIGNS

There have been high-profile Canadian business transfers to EOTs. In early 2025, ownership of Grantbook, a philanthropy consulting firm, was transferred to fifty employees.⁴ Brightspot Climate, a consultancy firm dedicated to accountability in climate change, moved to EOT status in April 2025.⁵ In late 2025, Taproot Community Support Services became the largest EOT in Canada when it was transferred to its 750 workers.⁶ These announcements suggest early interest in the EOT model. Some analysts have predicted that at least a few dozen companies may elect to transfer to EOTs in 2026.⁷

(2) OTHER JURISDICTIONS' EXPERIENCE

Data from other jurisdictions suggest that the concept of EOTs holds promise for Canada. Since the concept was adopted in the United Kingdom in 2014, nearly 2,500 companies have elected to become EOTs, representing over 335,000 employee owners.⁸ Research from WPI Economics found that employee ownership models were 8-12% more productive than other businesses.⁹ The UK's Employee Ownership Association claims that an increase in employee ownership leads to greater motivation among workers and fairer wages.¹⁰ A study from the United States also showed that employee ownership also leads to fewer layoffs during economic downturns.¹¹

(3) REDUCED POLARIZATION

EOTs represent a policy mechanism for bridging some of the divides in an increasingly polarized economy. Previous Cardus research has highlighted the growing gaps between working-class and

⁴ Grantbook, "Grantbook Becomes First Canadian Company to Sell to an Employee Ownership Trust," February 5, 2025, <https://grantbook.com/first-canadian-employee-ownership-trust>.

⁵ A. Singleton, "Brightspot Climate's Next Chapter Begins with Employee Ownership!" Brightspot Climate, April 9, 2025, <https://brightspot.co/library/brightspot-climates-next-chapter-begins-with-employee-ownership/>.

⁶ M. Raman, "Taproot becomes Canada's largest employee-owned trust with 750 workers," *The Globe and Mail*, September 2, 2025, <https://www.theglobeandmail.com/business/article-taproot-canada-largest-employee-owned-trust/>.

⁷ J. Claes, "SMB succession wave triggers shift toward employee ownership trusts in Canada," Employment Hero, February 27, 2026, <https://socialcapitalpartners.ca/taproot-becomes-canadas-largest-employee-owned-trust-with-750-workers-the-globe-and-mail/>.

⁸ Employee Ownership Association, "EO Research & Insights," <https://employeeownership.co.uk/Site/Site/content/News-and-Insights/Research/Research.aspx?hkey=1c415376-cfbd-46a6-89c6-6e5904622c7c>.

⁹ WPI Economics, "Exploring the potential of the Employee Ownership business model," October 17, 2023, <https://ownershipatwork.org/wp-content/uploads/2023/10/Exploring-the-potential-of-the-Employee-Ownership-business-model.pdf>.

¹⁰ Employee Ownership Association, "EO Research & Insights," <https://employeeownership.co.uk/Site/Site/content/News-and-Insights/Research/Research.aspx?hkey=1c415376-cfbd-46a6-89c6-6e5904622c7c>.

¹¹ F.A. Kurtulus and D. Kruse, "An Empirical Analysis of the Relationship between Employee Ownership and Employment Stability in the US: 1999–2011," *BJIR An International Journal of Employment Relations* 56(2), June 2018, <https://doi.org/10.1111/bjir.12254>.

professional-class Canadians, whereby Canada is experiencing an “hourglass economy” exhibiting a bifurcation between high-skilled professions and low-skilled professions, with relatively few professions in the middle.¹² This represents a significant challenge to policymakers concerned about creating an economy where all workers can thrive. In response to this, EOTs are a mechanism to allow workers to become asset owners. This gives them the opportunity not just to be paid in wages, but to share in profit. It also gives them access to capital and brings together the two sides of our economic system represented by capital and labour.

(4) MINIMAL COST

Finally, the fiscal cost of the tax exemption is very small. The Government of Canada estimated the fiscal impact at only \$5 million per year, representing a tiny fraction of federal spending.¹³ The opportunity that this structure represents for bringing together different aspects of a polarized economy vastly exceeds the anticipated cost of this incentive. Moreover, the expanded productivity of workers in an EOT should lead to higher economic output and thus greater revenue capacity for governments in the future.

CONTACT

We would welcome the opportunity to meet with you and assist with future considerations on this issue. Please do not hesitate to contact us at rnauta@cardus.ca.

¹² S. Speer, S. Bezu, and R. Nauta, “Canada’s New Working Class,” Cardus, September 29, 2022, <https://www.cardus.ca/research/work-economics/reports/canadas-new-working-class/>.

¹³ Department of Finance Canada, “2024 Fall Economic Statement,” Government of Canada, 2024, https://www.budget.canada.ca/update-miseajour/2024/home-accueil-en.html?utm_campaign=fin-fin-update-miseajour-24-25&utm_medium=vanity-url&utm_source=canada-ca_fall-economic-statement.