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# Tax Alert – Canada

## Employee ownership trusts are here to stay

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

The federal *Spring Economic Update 2026* (SEU), tabled on 28 April 2026, signals that employee ownership trusts (EOTs) are set to become a permanent fixture.

More specifically, the federal government announced that the exemption on the first \$10 million of eligible capital gains realized on the sale of a business to an EOT, which was scheduled to expire for dispositions of shares occurring after 2026, will be made permanent.<sup>1</sup>

The proposal was subsequently included in Bill C-30, *Spring Economic Update 2026 Implementation Act*, which received first reading in the House of Commons on 29 April 2026.<sup>2</sup>

## Background

In general terms, an EOT is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. This type of trust can be used to facilitate the purchase of a business by its employees without employees having to pay directly to acquire the shares.

The 2023 federal budget proposed new rules to facilitate the creation and use of EOTs; however, take-up was limited. While the concept of selling a business to a trust for the benefit of employees was appealing in principle, owners were cautious of certain limitations.

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<sup>1</sup> For more information on the tax measures included in the SEU, see [EY Tax Alert 2026 Issue No. 25](#).

<sup>2</sup> For more information on the tax measures included in Bill C-30, see [EY Tax Alert 2026 Issue No. 27](#).



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Subsequently, in the 2023 fall economic statement, a key incentive was introduced to provide a \$10 million capital gains exemption on the sale of a qualifying business to an EOT, subject to certain conditions. However, this incentive was a temporary measure scheduled to expire for dispositions of shares occurring after 2026.<sup>3</sup>

While the \$10 million capital gains exemption was a significant incentive for business owners, the temporary nature of this incentive imposed a time constraint on tax planning strategies.

## **What this means for business owners**

Making the \$10 million capital gains exemption permanent is an important policy shift that allows private business owners to expand their succession and exit planning options.

This announcement removes a significant timing constraint and allows EOT conversions to be evaluated as part of a broader, thoughtful succession strategy rather than as a transaction that must be completed before the sunset date.

As a result of this change, EOTs are more likely to feature prominently alongside traditional sale, family succession and management buyout options. For the right business, an EOT can offer:

- ▶ Meaningful tax efficiency;
- ▶ A gradual, planned ownership transition;
- ▶ Continued operational continuity; and
- ▶ Long-term employee alignment.

## **Looking ahead**

While an EOT will not be the right succession fit for every business, this change effectively eliminates one of the main barriers that previously limited adoption.

Business owners considering an EOT should seek tax and legal advice to determine both eligibility for the available tax incentives and the suitability of an EOT as a long-term successor to the business.

For additional information on EOTs, including a brief review of the main features and key questions business owners should consider in assessing whether this alternative may be an effective succession planning tool, see the [February 2026 edition of TaxMatters@EY](#).

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<sup>3</sup> For more information, see [EY Tax Alert 2024 Issue No. 29](#).

## Learn more

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