Requirements For The EOT Capital Gains Tax Incentive

Canada's Employee Ownership Trust (EOT) legislation includes a tax incentive that exempts up to C$10 million in capital gains when an owner sells at least 51% of their business to an employee trust. Many owners will qualify, but specific conditions apply.

Below is a clear summary to help you determine whether this incentive may apply to your situation.

Always consult a qualified advisor when assessing eligibility.

Owner Requirements	Key Considerations	Business Requirements
Eligible Individuals Individual owners are eligible. Even if shares are held through a personal trust or holding company, you may still qualify. Discuss with your advisor. Companies that sell other companies they own do not qualify.	**Active Business Assets** The company's value must come from assets used in an active business (consult your advisor for specific thresholds). Companies that hold primarily passive assets, such as real estate, are ineligible.	**Incentive Allocation** The C$10,000,000 incentive is per transaction, so owners must decide how to divide it among themselves.
Active Involvement The owner (or their spouse) must have been actively involved in the business for at least two years, either currently or previously. Passive shareholders do not qualify.	**Ineligible Companies** Professional corporations, as defined by the Federal Income Tax Act, do not qualify. This includes accountants, dentists, lawyers, medical doctors, veterinarians, and chiropractors.	**Combined Benefits** The C$10,000,000 EOT incentive can be combined with the lifetime capital gains exemption of C$1,250,000 to increase the total benefit.
Age Requirement Owners must be at least 18 years old.	**Employee Beneficiaries** At least 75% of employee beneficiaries in the new EOT must be Canadian residents.	**AMT Exemption** The EOT tax incentive is exempt from Alternative Minimum Tax (AMT) and will not be reduced by AMT calculations.