

Cwmpas Response on the Budget Announcement: CGT Relief for EOTs Reduced to 50%

While the reduction in CGT relief from 100% to 50% for qualifying disposals represents a significant shift, employee ownership remains one of the most effective models for building resilient, fair and locally rooted businesses in Wales.

As the national body supporting co-operatives, employee-owned businesses and democratic ownership, our response reflects the practical realities facing Welsh SMEs and the strategic direction set by Welsh Government priorities, particularly in relation to fair work, long-term sustainability and community wealth building.

Here are the initial thoughts from both Cwmpas and related stakeholders...

1. Clarity Needed on the Guidance Issued

For founders, advisers and employees considering or completing EOT transitions, further clarity from HMRC is essential. In particular, Cwmpas recommends clearer guidance in the following areas:

a. Transitional arrangements and deal timelines

Businesses need certainty on:

- how the new 50% rate applies to deals already underway,
- whether any transitional provisions will apply to transactions that have progressed to Heads of Terms or draft trust deeds,
- the treatment of staged transfers or deferred consideration.

This clarity is critical for succession pathways that anchor jobs and prosperity in Wales.

b. Interaction with other tax reliefs

Founders need clear, consistent information on:

- comparisons with Business Asset Disposal Relief (BADR),
- how existing CGT rules, including any relevant trust-based deferral mechanisms, interact with the revised EOT relief,
- implications for inheritance tax in succession planning.

Without clear guidance, advisers may find it harder to recommend EOTs despite their strong contribution to Fair Work and democratic ownership.

c. Continued heavier compliance despite reduced incentives

While Cwmpas welcomed earlier tightening of compliance requirements to ensure meaningful employee ownership, many Welsh SMEs report that the newly extended **four-year clawback period** now poses a **significantly greater risk** to business vendors, especially as the tax relief has been halved.

Compliance around trustee independence remains particularly challenging for smaller, locally rooted businesses with limited resources.

Given the prevalence of rural and family-run SMEs in Wales, there is a legitimate concern that the reduced tax incentive, coupled with an upfront CGT payment, may disproportionately affect take-up of the EOT model in Welsh communities.

d. Easy-to-understand guidance for SMEs

Guidance should include:

- plain-language explanations,
- step-by-step illustrations,
- example cases typical of the range and scale of Welsh SMEs.

2. Specific Questions and Scenarios That May Not Have Been Addressed

Our work with prospective and current EOTs suggests several areas where guidance is not yet sufficient:

- **Deferred payments and vendor financing:** Clarification on how deferred consideration affects upfront CGT liability.
- **Valuation methodology and pricing:** Clear guidance on acceptable valuation methods and how the revised relief impacts pricing expectations.

3. Impact on Growing the EO and Mutuals Sector in Wales

a. Alignment with Welsh Government priorities

Employee ownership remains strongly aligned with Welsh policy goals, including:

- Prosperity for All
- Foundational Economy
- Fair Work and Social Partnership
- Innovation Strategy for Wales
- Well-being of Future Generations Act
- Just Transition and Net Zero Wales
- Co-operative Economy

b. Risks to momentum

- Founders may reconsider EOT succession due to reduced tax incentives.
- Smaller enterprises with limited cash reserves may find upfront CGT more challenging.
- Transitions may slow without clear guidance and accessible support.

c. Client concerns

From our clients' perspective:

- Immediate CGT liability upon completion creates significant cash flow challenges.
- The lack of notice feels unfair, particularly for businesses close to completion and awaiting legal finalisation.
- Transitional arrangements would have provided greater certainty.

- Four-year clawback: compliance obligations now feel disproportionate relative to the reduced relief.
- Smaller firms are most affected, as the reduced benefit no longer offsets risk — potentially undermining efforts to keep rural and family businesses in local employee ownership.

d. Likely impact on deal flow

- The perception that this may be the first step toward reducing or withdrawing relief adds further uncertainty.
- EOTs have driven almost all EO growth in Wales; any slowdown will significantly affect overall sector expansion.
- Co-operative growth alone is unlikely to compensate for reduced momentum in EOT transitions.

e. Opportunity through the Call for Evidence

This is a pivotal moment to:

- strengthen the policy and funding environment for EO and co-operatives,
- identify barriers to succession in micro and SME businesses,
- shape a future-proof, democratic ownership landscape across Wales and the UK.

Summary

- More detailed guidance is required to support businesses navigating the new 50% CGT relief, especially around transitional rules, the treatment of deferred payments, and governance compliance.
- Several real-world scenarios common among Welsh SMEs remain unclear and require clarification.
- Despite the reduction in relief, the EOT model continues to support Wales' ambitions for fair work, local wealth building, innovation and sustainability.
- Cwmpas remains committed to supporting the growth of employee ownership and the broader mutuals sector in Wales, and views the Call for Evidence as an important opportunity to strengthen the environment for democratic ownership.