



UNIVERSITY OF
TORONTO

Employee Ownership:

A Brief Discussion of Benefits and Recent Policy

Jake Barton

Scholar

Robert Gillezeau

Research Advisor

University of Toronto Laidlaw Scholars Programme

Summer 2023

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Acknowledgements

I sincerely thank the Laidlaw Scholars Foundation, the University of Toronto Laidlaw Scholars Programme, and Dr. Robert Gillezeau for supporting me throughout my research and making this paper possible.

Preface

Having been aware of the advantages of employee ownership, the initial proposal for my research was to study worker co-operatives in Ontario and find out why there were not more. The initial proposal included both a literature review as well as primary research. However, the primary research aspect never came to fruition and I simply began my literature review. Rather quickly into my research period, I became unfortunately aware that my initial question 'Why are there not more worker co-operatives in Ontario' has already been answered. For those interested, the main reasons are lack of awareness, start-up capital, and government support.

For the majority of my research period, I was unsure what this final paper would be about. Eventually, I came around to my research advisor's suggestion (admittedly it took longer than it should have). Dr. Robert Gillezeau encouraged me to discuss employee ownership trusts (EOTs) since they are at the forefront of public policy discussions surrounding employee ownership.

Not wanting to waste all the information I had gathered on worker co-operatives, I decided to make this final paper straddle two objectives. The first was to show that employee ownership is a better business structure relative to conventional structures; this allowed me to repurpose some of my worker co-operative research. The second was to discuss the recent policy movements regarding EOTs; this allowed the paper to take on some degree of relevance.

There are a great many things I would have liked to include in this paper, however, due to the limited timeline of the project and my (at times aimless) research I was unable to. In the end, I hope that readers come away from this paper thoroughly understanding that employee ownership is a better business structure that ought to be encouraged by the government. Further, I hope they understand the balancing act policymakers may engage in when deciding *to what degree* they will encourage employee ownership.

Jake Barton

Introduction

This paper will show that employee ownership of the firms that employ them has substantial advantages in vital aspects of business such as productivity and longevity, in addition to benefits such as greater employee retention during economically turbulent times, keeping jobs and profits within a local community, less income inequality, being more sustainable, and more. In Canada, employee-owned firms have traditionally been worker co-operatives, workplaces that are equally owned and democratically managed by the employees (worker-owners) and whose primary object is to provide employment for the worker-owners. Despite the aforementioned benefits, this employee ownership structure fails to occupy a significant portion of the private market. Moreover, other forms of employee ownership such as employee stock ownership plans (ESOPs) and worker shareholder co-operatives have also failed to make significant waves within the private sector. However, employee ownership has seen a recent breakthrough in the United Kingdom. In 2014, the UK's coalition government passed legislation that recognized and highly incentivized employee ownership trusts (EOTs) in their tax law. By selling a controlling interest of their business to an EOT, in addition to some other requirements (negligible for the purposes of this paper), a UK business owner's capital gains are not taxed (henceforth known as the 'capital gains tax (CGT) exemption') (Shell and House 2022, 4). An EOT is a trust that owns a controlling interest in a firm and in turn, provides the benefits – mostly company surpluses (profits) – to its trustees (the employees).

Unlike other forms of employee ownership, EOTs have been rapidly spreading throughout the private market. In 2014 there were just 17 EOTs in the UK, but as of 2022, there are 1030 (GO EO, n.d.). Furthermore, the rate at which the business structure is catching on is accelerating, with more and more EOTs emerging each year (HM Revenue and Customs, 2023). Now, 90% of the UK's 1418 employee-owned businesses are EOTs which have emerged since 2014 (Employee Ownership Association, 2023).

In 2021, Canada's federal government pledged to look into employee ownership. The following year, the government promised to recognize EOTs as a unique business structure (Cision 2023). Budget 2023 proposed draft amendments to the Income Tax Act, which as of January 1st, 2024, will enable EOTs (Minor 2023). Sales to EOTs will not be taxed the exact same as other business sales, the capital gains reserve period is increased from a maximum of five years to a maximum of ten years on qualifying sales (Minor 2023). The capital gains reserve period allows an individual to defer paying some taxes on their capital gains until a later date (Devi 2021). While this amendment makes selling a business to an EOT financially easier, it falls short of truly incentivizing the action for business owners. In response, the Canadian Employee Ownership Coalition (CEOC) is calling upon the government to make proceeds resulting from selling majority ownership of a firm to an EOT CGT exempt, as the UK did in 2014 (Shell and House 2022, 1).

The purpose of this paper is to show that employee-owned business structures are generally superior to conventional structures. In addition, it will show that tax incentives effectively increase employee ownership uptake. Lastly, the paper will discuss the UK's CGT exemption and offer two alternative policies for consideration that seek to incentivize employee ownership at a lesser cost to the government.

Benefits of Employee Ownership

Productivity

A firm's output based on inputs is potentially the most important business metric. As will be shown, data indicates that employee-owned firms are often more productive than conventional firms. Further, some theoretical explanations behind employee-owned firms will be discussed.

Following a 1990 literature review, Levine and Tyson (as quoted in Craig and Pencavel 1995, 121) concluded:

"Our overall assessment of the empirical literature from economics, industrial relations, organizational behavior, and other social sciences is [workers' participation in firm's decision making] *usually* leads to small, short-run improvements in performance and *sometimes* leads to significant, long-lasting improvements in performance" (emphasis in original)

While tepid in their wording, Levine and Tyson's conclusion is in line with later research that found employee-owned firms are typically on par with or more productive than conventional firms; they are not less productive as sometimes speculated. Studies which have estimated the production functions of employee-owned firms have found that:

In all cases, the findings imply that worker co-operatives organise production differently from other firms: the production function is not the same for the two groups. Two studies – Craig and Pencavel (1995) and Fakhfakh et al (2012) – apply both of the estimated production functions to the current inputs of each group of firms. Both studies find that on average overall firms can produce more with the technology of employee-owned firms. In other words, the way worker cooperatives organise production is more efficient. Fakhfakh et al (2012) show that in several industries conventional firms would produce more with their current levels of employment and capital if they adopted the employee-owned firms' way of organising production. In contrast, they find that worker co-operatives would always produce at least as much with their own technology as with conventional firms'. (Pérotin 2016, 18-19)

In Craig and Pencavel's (1995) referenced work, worker co-operative plywood mills in Washington state were found to be 6-14% more efficient than conventional plywood mills (158).

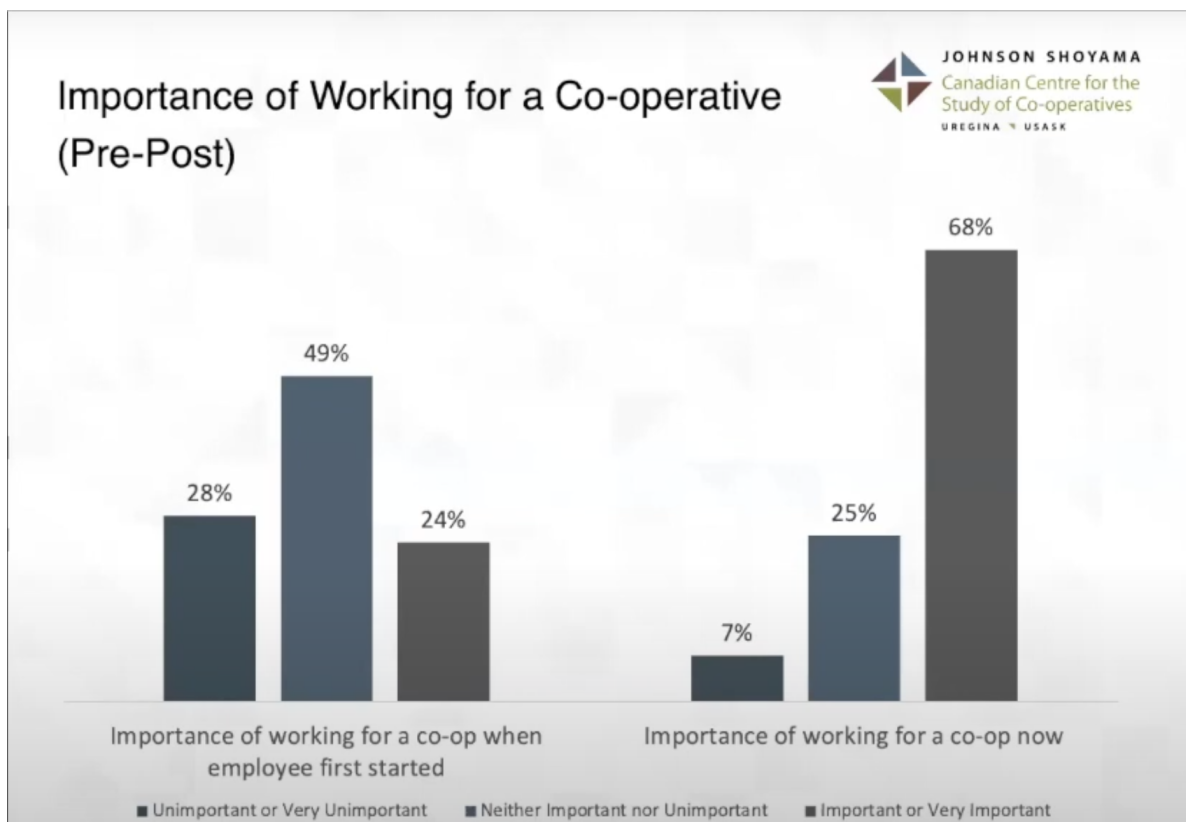
There are many possible explanations for why employee-owned firms are generally more productive (given the same inputs) than conventional firms. Levine and Parkin (1994 as quoted in Burdín 2014, 224) theorized that knowledge-sharing and human capital investment could explain the greater productivity “Long-term employment relationships may create better incentives to invest in training and firm-specific human capital. Workers may also be willing to share productive information with managers as productivity improvements will not jeopardize their jobs.” Burdín’s methodology precluded him from demonstrating such a relationship (224), however, given the above findings of Levine and Tyson as well as Pérotin, it seems quite likely that Burdín’s findings could in large part be explained by employee-owned firms simply being more productive.

Weitzman and Kruse (1990 as quoted in Craig and Pencavel 1995, 168) concluded that, on average, profit sharing raises productivity by roughly 4.5%. The practice of profit sharing is inseparable from employee ownership, as the employees are also the company’s owners who receive surpluses. Thus the productivity advantage seen in employee-owned firms could wholly or partially be explained by the incentive structure.

In addition, morale and mindset likely play a role, by giving employees ownership of the business they are understandably less likely to feel like a drone, or a cog, churning out surplus to be passed up the ladder (Held 2021). Stefano Bolognesi, president of Italy’s fifth largest ceramics company (which is a worker co-operative)

described co-operative ownership as a gift that “[creates] a sense of collective entrepreneurship. Membership requires thinking about the business,” producing a workforce which is more committed than that of a conventional firm (Adeler 2009, 5). This deeper commitment may translate into more motivation to be productive and efficient, as each employee now thinks like an owner, brings the same commitment and investment as an owner, and looks for inefficiencies to optimize in everything they do. Figure 1 shows survey results from co-operative employees confirming the value of working for a co-operative, which could be used to support the above theories regarding morale and mindset boosting productivity.

Figure 1: *Importance of Working for a Co-operative (Pre-Post)*



Note. Image from Co-Op Conversations (2022)

Like worker co-operatives, EOTs also benefit from greater productivity relative to conventional firms. This makes sense because the aspects within worker co-operatives that are hypothesized to be behind productivity gain also exist in EOTs. Profit sharing is inherent as the employees are also owners who benefit from surplus, in addition, morale boosts associated with ownership would logically occur as well, and data from the UK's Employee Ownership Association (2023) supports the idea that knowledge sharing boosts productivity in employee-owned firms (as it is hypothesized to in worker co-operatives); 97% of the UK's employee-owned businesses (which are predominantly EOTs) have at least one form of employee governance; 74% two or more; 90% report that employees have 'some' or 'a lot' of say regarding working conditions; 85% have 'some' or 'a lot of' say in new working methods; and median productivity is above the UK average.

It has also been theorized that worker co-operatives are more productive because they "may be able to attract highly motivated workers" (Elster 1989 as quoted in Burdín 2014, 227). However, this theory is either incorrect or an incredibly minor contributor to productivity gain. Burdín notes that "recent experiments on team production in which subjects are randomly assigned to "democratic" and conventional workplaces also suggest positive incentive effects associated with workers' control (Mellizo, Carpenter, and Matthews 2011)" (227). Moreover, Elster's theory would not explain why EOTs in the UK see productivity boosts relatively shortly after conversion to employee ownership; presumably too quickly to have attracted highly motivated workers.

As a final note on the topic of productivity, Jeffery Smith (2021) – CEO of EllisDon, Canada’s second-largest construction company by revenue (Richer 2022) – recently said “without any question the Smith family has done far better [since giving 45% of the company to its employees just over twenty years ago] than we ever would have done if we’d kept one-hundred percent ownership, no doubt about that” as he announced that his family would be selling the remaining 55% of the company to the EOT.

In summary, there is both evidence that explicitly shows employee-owned firms are more productive (given the same inputs), and evidence where such a conclusion is logical (implied). The following two benefits of employee ownership that will be given specific attention (longevity and behaviour in economically challenging times) may be explained, in part, by the aforementioned findings.

Longevity

Literature suggests that employee-owned firms are less prone to closure and as a result survive longer than conventional firms.

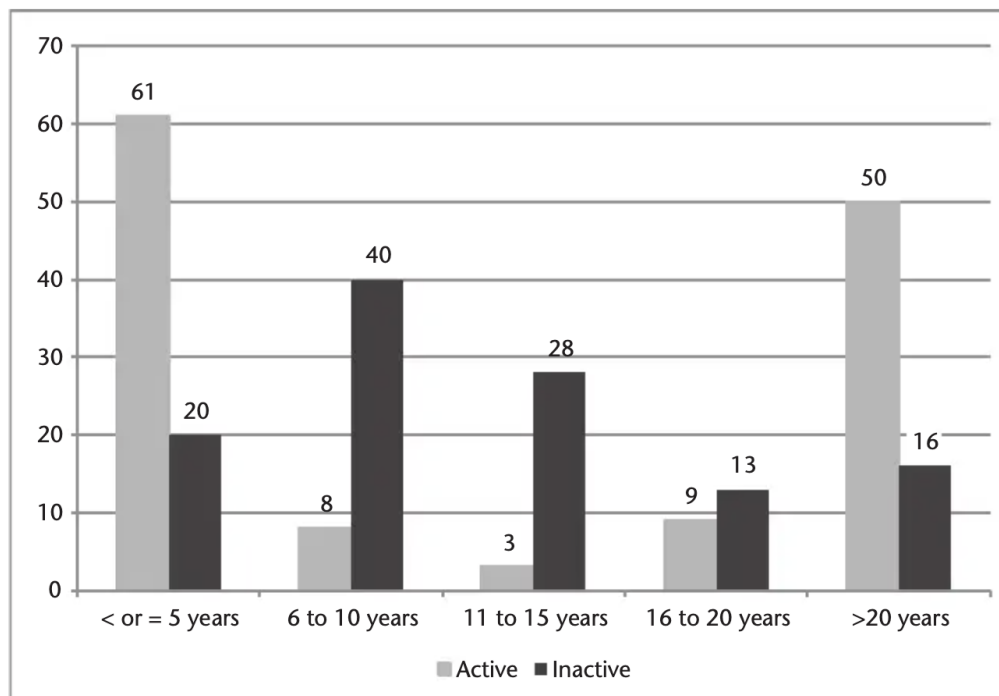
Recent data from the United States showed that compared to conventionally owned and managed small businesses, worker co-operatives are 6.9% more likely to be operating after 6-10 years, and 2.8% more likely to be operating after 26+ years (Palmer 2020, 3). Similarly, a 2008 Government of Québec report which collected information from 1985-2004, found worker co-operatives were (on average) 11.8% more likely to survive after three years, 10.8% more likely to survive after five years, and 9.8% more

likely to survive after ten years, relative to conventional firms (Clement, Bouchard, and Jacob 2008, 43). What makes the aforementioned averages from Québec even more impressive is that the report notes they were being pulled down by worker co-operatives in the manufacturing sector, primarily due to the textile firms which faced incredible competition from emerging countries at the time (Clement, Bouchard, and Jacob 2008, 42).

Gabriel Burdín (2014) concluded that worker-managed firms in Uruguay faced a 29% lower hazard of dissolution than conventional firms when accounting for different tax burdens and excluding firms with less than six employees (microenterprises) (202). In addition, Burdín found that theories such as workers' control over the firm's dissolution and higher compensation variability, were on their own, unable to explain the lower rates (226). When surveying data from the UK, Canada, Israel, France, and Uruguay, Professor Erik Olsen found worker co-ops had lower hazard rates than conventional firms, and that early survival and the median lifespan for worker cooperatives met or exceeded that of conventional firms (Stephens 2014). Park, Kruse, and Sesil (2004) also found that employee-owned firms live longer (30). Similarly, a paper from Italy found that the average lifespan of worker co-operatives was slightly over seventeen years, compared to thirteen and a half years for conventional firms (Vieta 2020, 176-177). Figure 2 shows the lifespan of Italian worker buyouts (WBOs) – situations where workers acquire the firm that employs them – between 1979 and 2014. Take note of the concentration of quite young firms and quite old firms. The reason for the lack of firms between the age of 6-20 years old is due to legal disputes between the

European Union and Italy over Italy's Marcora Law, which enabled workers to buy out their firms. Few WBOs emerged between 1996 and the mid-late 2000s as a result of the disputes. What is notable is the enduring presence of worker-bought firms established before the dispute period.

Figure 2: Lifespans of WBOs in Italy during the Marcora Law era (1979-2014)



Note. Figure from (Vieta 2020, 176)

Eighty-one WBOs occurred in Italy from 2002-2014, with most occurring since 2008. Remarkably, seventy-one of those WBOs were still operating as of December 31st, 2014, a survival rate of nearly 88% (Vieta 2020, 181).

The above statistics show that employee-owned firms are less likely to fail than conventional firms and that they (on average) survive longer as a result. The longevity

of employee-owned firms is an important metric as it shows that the employee ownership structure creates businesses able to sustain success, which primarily benefits the workers and their communities.

Behaviour in Economically Challenging Times

In addition to being more productive and exhibiting greater longevity, employee-owned firms also behave differently during economically challenging times. Unlike conventional firms which often react to recessions by closing or laying off considerable portions of their workforce, employee-owned firms seem to emerge as well as retain employees during turbulent (macroeconomic) times. Of note, available data predominantly analyzes worker co-operatives due to the structure's long-running history. That is to say, there is little to no data on how EOTs fare in challenging times, although it seems plausible they would fare equally if not better than conventional firms based on their similarity to worker co-operatives.

Following the Great Recession, the United States saw an increase in worker co-operatives. The decade spanning 2008-18 – notable for its slow recovery, precarious and declining material conditions for the working class, and anti-capitalist movements – saw the number of worker co-operatives grow from roughly 350 to nearly 600 (Harvey 2018). Similarly from 2019 to 2021, the early years of the following crisis (COVID-19) the number of worker co-operatives in the U.S. increased by over 30% (2021 Worker Cooperatives State of the Sector 2022, 3). Hazel Corcoran, executive director of the Canadian Worker Co-op Federation, anecdotally noticed increased interest in employee

ownership during the COVID-19 pandemic in Canada as well. In May 2022, Corcoran stated that many people had reached out to the organization over the last twelve months inquiring how to start a worker co-op. Corcoran attributed this interest to people's dissatisfaction with their wages and inability to control their working conditions" (Jean 2022).

Not only has interest in, and emergence of, employee ownership occurred during turbulent times, but employee-owned firms also fared better and behaved more equitably in said times. During the COVID-19 pandemic, nearly one-third of conventional firms reported a decrease in revenue greater than 50%. Meanwhile, only one-fifth of worker co-operatives suffered losses of that magnitude. The average revenue decrease for worker co-ops, compared to fiscal year 2018, was 44%. Despite this revenue collapse, the median total hours worked at worker co-operatives only decreased by 9% in fiscal year 2019 relative to the fiscal year 2018 total (2021 Worker Cooperatives State of the Sector 2022, 5). Multiple studies, looking at various countries consistently find that employee-owned firms are prone to adjust pay (not employment) during economic downturns, in contrast with conventional firms (Pérotin 2016, 3). Doing this spares individual workers from what is likely their greatest anxiety during a recession, the threat of unemployment.

Unlike conventional firms which typically default to mass layoffs during economically challenging times, worker co-ops tend to seek 'collective solutions' (Slyke 2020). One collective solution seen during COVID-19 was that half of a California

worker co-operative's workforce volunteered to be furloughed, which allowed them to collect unemployment while still receiving benefits from the co-operative (Slyke 2020). Similarly, to American co-operatives during COVID-19, the Mondragon Corporation - a Spanish federation of worker co-operatives - survived the Great Recession while avoiding mass layoffs. This was done in part by reducing employee hours and internally moving employees from less busy to more busy co-operatives (Deutsche Welle 2012). Ben-Ner (1988 quoted in Vieta 2020, 164) offers an explanation for why worker co-operatives may emerge in times of economic downturn, positing that:

Declining economic conditions . . . reduce the obstacles present to [employee-owned firm] formation. . . . The buyout of a [conventional firm] entails particularly low formation obstacles because the firm is already in existence and because the cost of purchasing capital that lacks alternative uses is lower. Thus industrial decline and recessions simultaneously increase the demand for [employee-owned firms] and lower the obstacles to their entry, increasing the probability of [employee-owned firm] formation.

Employee-owned firms' ability to emerge in and weather times of economic crises, a fundamental feature of the capitalist system, whilst mitigating unemployment is an asset to workers and society. Moreover, it likely explains – in part – employee-owned firms' aforementioned longevity as there is increased opportunity for co-operatives formation and decreased likelihood of closure (relative to conventional firms), occurring on a semi-regular basis.

Additional benefits

Beyond critical business advantages (like productivity and longevity), employee-owned firms generally come with benefits such as:

- Longer employee retention and job stability (Democracy at Work Institute n.d.; Rosen and Case 2023; Park, Kruse, and Sesil 2004, 30)
- Less income inequality between the highest and lowest earners (Romeo 2002; Kerry 2017; Palmer 2020, 1)
- Keeping jobs and profits within the community (Democracy at Work Institute n.d.)
- Considering the well-being of the workforce as a key measure of success
- Having a stated purpose to make positive contributions to the environment and society (Employee Ownership Association, 2023)
- Greater sustainability (Kahn 2020)
- Acting as 'market watchdogs' (Special Committee on Co-operatives 2012, 11)
- Becoming less reliant on one or two key people over time, in contrast with most SMEs (Clement, Bouchard, and Jacob 2008, 98)

I hope that the benefits of employee ownership are now overwhelmingly clear. Moreover, based on the aforementioned benefits of employee ownership it ought to be accepted that an employee ownership structure would be superior to a conventional structure in the vast majority of cases. Furthermore, the benefits of employee ownership are not just isolated to the employee-owners and their communities. Employee-owned firms' ability to produce more given the same inputs, reduce income inequality, and

boost worker morale, allows these firms to marginally mitigate some of the most acute crises our society faces, such as the climate crisis, the income and inequality crisis, and the mental health crisis, respectively. Admittedly the current impact of employee-owned firms on said crises is likely incredibly small, however, the mass adoption of employee ownership can increase the impact. This is all to build to the conclusion that, based on current and potential benefits, increasing the presence of employee ownership within the private market should not merely be a laudable yet low priority for society, but a priority which is ardently pursued. The aforementioned results of the UK's 2014 tax amendments indicate that government-provided financial incentives are an effective way to increase employee ownership. This begs the question: Should Canada mirror such an incentive?

Policy and discussion

Now that the benefits of employee ownership have been laid out, policies regarding how the government could promote the business structure in the private market will be discussed. It is critical to understand that government policy should be implemented to facilitate the mass adoption of employee ownership structures. The UK's experience indicates that without top-down financial incentives, employee ownership will not see significant uptake. A government incentive to business owners who sell their business to give way to an employee-owned entity creates new awareness and benefits for adopting employee ownership. This increased awareness and benefit spur adoption much faster than organic diffusion not only ever has but likely

could. The rest of this paper will evaluate the CEOCs call upon the Canadian Government to mirror the UK's tax incentives and provide two alternative options. The drastic increase in EOT adoption in the United Kingdom since 2014 (shown in Figure 3) is certainly due to the CGT exemption for business owners who sell to EOTs. The certainty behind this statement stems from the fact that even before 2014 the UK's legal and tax framework allowed for an EOT to hold a controlling interest in a company, yet adoption was nearly non-existent as there were no financial incentives for business owners to sell to their employees over a third party (Nuttall 2022). Moreover, the increasing rate of adoption is likely attributable to the UK's age demographics (business owners retiring and selling to their employees for the tax break) and growing awareness of the business structure, its benefits, and critically the government incentive. This demonstrates that a CGT exemption is indeed an effective way to incentivize business owners, and significantly grow the employee-owned business structure.

Figure 3: *Cumulative EOTs in the UK from 2014-2022*

Year	Cumulative EOTs	Increase in EOTs from the previous year
2014	17	x
2015	55	38
2016	102	47
2017	147	45
2018	219	72
2019	335	116
2020	474	139
2021	576	102
2022	1030	454

Note: Data from GO EO, n.d.

Though very difficult to say with confidence, the CGT exemption may cost the UK government significantly. HM Revenue and Customs estimated that in the 2019-2020 fiscal year, the CGT exemption cost His Majesty's government £130 million, which is 0.02% of the £636.7 billion collected through tax revenue that year (HM Revenue and Customs, 2020, 2023). Unfortunately, HM Revenue and Customs gave the figure a 'high' uncertainty rating which is characterized by "Very little, incomplete or poor quality data. Largely assumption-based and difficult to verify." (HM Revenue and Customs 2023). Further, this figure cannot be used to produce a reliable cost-per-EOT conversion estimate as the 2019-2020 fiscal year does not align with the calendar year, and as a result the data from Figure 3, 2019-2020, is not reflective of how many new EOTs were created with that £130 million.

Attempting to estimate what copying such a policy would cost Canada's government is also very difficult as several factors could increase Canada's cost, relative to the UK's, in addition to several factors that could decrease Canada's cost. In 2022, Social Capital Partners (SCP) estimated Canada could see 505-757 EOTs created in the first eight years after adopting a CGT exemption. SCP acknowledged many factors, such as Canada's age demographics and firm sizes, which may skew EOT adoption in Canada. Most of the factors mentioned skewed EOT adoption upwards (Shell and House 2022, 1-9). Regarding firms and demographics, in 2022 the Canadian Federation of Independent Business estimated that 76% of small business owners in Canada intend to retire within the next decade. These business owners could represent some \$2 trillion worth of assets. Further, only 9% have a succession plan, implying that

if a lucrative exit strategy, such as the CGT exemption for selling to an EOT, presented itself it would likely meet a highly receptive population of business owners (Bomal, Cruz, and Pohlmann 2022).

While the above factors imply Canada may face a higher (relative) cost than the UK for implementing a CGT exemption, existing tax relief policies in Canada indicate the federal government would be forgoing less revenue than initially expected. First, upon meeting specific requirements, small business (share deal) sales are eligible for the lifetime capital gains exemption (LCGE). This exemption is indexed to inflation and set at \$971,190 for 2023 (Canadian Federation of Independent Business 2023). The United Kingdom has a relatively comparable program known as the Business Asset Disposal Relief (BADR). If eligible for BADR, a UK business owner may reduce the tax rate on their gains to just 10%. Similarly to the LCGE, BADR has a lifetime limit of £1 million (Selling My Business n.d.). The LCGE implies that, while every UK business has to pay at least ten percent capital gains tax due to BADR, some Canadian business sales are entirely capital gains tax-free (in addition to others being heavily tax-reduced). Second, Canada's capital gains inclusion rate is just 50%. Meaning only half of an individual's taxable capital gains are actually subject to taxation. In contrast, the UK's inclusion rate appears to be 100%.

These differences in taxation indicate the Canadian Government likely collects less revenue (proportionally) per comparable business sale than His Majesty's Government. Logically, If the Canadian Government is already collecting less revenue

from business sales, then the amount of forgone revenue from implementing a CGT exemption would be less.

While the UK's EOT-uptake data speaks for itself, and 0.02% of the financial year's tax revenue is seemingly not an egregious cost, the uncertainty behind the £130 million figure in addition to the potentially staggering amount it may have ballooned to as of 2023 (given the ever-increasing rate of EOT creation and inflation) warrants a degree of apprehension even for those who support the policy. As a result, there are two alternative policy proposals below. These proposals are intended to significantly increase EOT creation, as the CGT exemption has, but err on the side of fiscal caution.

One option available to the government is to raise taxes on business sales not to an EOT, while keeping sales to an EOT taxed at the present rates. This could be done by bringing Canada's aforementioned LCGE program and capital gains taxation rates, closer in line with the UK's tax regime. The capital gains inclusion rate could be increased from 50% (perhaps only on business sales should a policymaker wish) and a minimum taxation rate (similar to the BADR's 10%) could be applied to the LCGE. Alternatively, a more novel tax could be introduced for sales not to an EOT. This policy option incentivizes business owners to sell to EOTs, while also increasing government revenue (in contrast with a CGT exemption). Further, implementing a minimum capital gains tax to the LCGE, ensures there is some financial incentive for business owners whose entire capital gain is within their LCGE to sell to EOTs (also in contrast with the CGT exemption). That said, these tax increases could be problematic if the owner(s) or

employees of a business do not want to establish an EOT (for whatever reason). This new tax regime would force the owner to pay previously unexpected taxes, which could jeopardize retirement plans for older Canadian business owners; as they may have been counting on the proceeds of their sale being taxed at the current rates, and then becoming their retirement funds. Temporal considerations related to a firm's founding (or most recent transfer of ownership) could be attached to this policy in an attempt to avoid stymying elderly Canadian business owners' retirement plans, however, doing this would undoubtedly delay EOT adoption (making it not ideal). Further, announcing tax increases is almost surely going to be unpopular with the public.

A different option is a partial CGT exemption, where the proceeds from selling to an EOT are still taxed, just at a lesser rate than the present. This policy still incentivizes sales to EOTs through a tax subsidy, however, it avoids forgoing as much revenue as a total CGT exemption would (which may be incentive-overkill). However, it may lead to slower EOT adoption than the CEOC's recommendation, in addition to also facing an LCGE quagmire. This partial exemption does not just face a lack of financial incentive for certain LCGE-eligible business owners, but actual financial disincentive if the entirety of one's capital gains are within their LCGE. However, this LCGE issue could be worked around by drafting a clause specifically for such cases. Potential clauses incentivizing business owners whose gains are entirely within their LCGE to sell to an EOT could be the implementation of a tax credit. However, assuming government financial strain is a concern attached to the complete CGT exemption and this hypothetical partial one, this idea is not ideal.

Despite proposing two alternative policies, the complete CGT exemption still has significant appeal. It is perhaps as effective *and* simple as any policy incentivizing employee ownership could realistically get. The financial concern associated with the generous exemption could be mitigated by attaching a fiscal backstop to the program. For example, if the program were to cost more than a certain predetermined amount for a number of years in a row, a clause could suspend or reduce the incentive until it is re-evaluated by the government which may or may not decide to alter the program. However, this is just one possible solution among many. Moreover, perhaps a solution is not even required (only more accurate cost projections could say).

There is a balancing act required when incentivizing employee ownership. On one hand, spending more than what is required to incentivize business owners is wasteful. On the other hand, if the incentives are not generous enough the program may be ineffective. Regardless of what employee ownership incentives come in the near future, if any, worker co-operatives and worker shareholder co-operatives must receive incentive parity. Doing so gives workers the freedom to choose an ownership structure that works for them.

Conclusion

The data overwhelmingly indicates that employee-owned firms possess many benefits relative to conventional firms such as higher productivity, greater longevity, beneficial traits during recessions, reduced income inequality, and more. Despite that, employee-owned firms (for reasons not discussed in this paper) have struggled to occupy a significant share of the private sector. The notable exception is the currently growing employee ownership trust (EOT) structure in the United Kingdom, which can attribute its success to government incentives. This paper went on to argue that government incentives should be implemented here in Canada to fully harness the benefits of employee ownership via mass adoption. In addition to a discussion about the largest potential flaw with a complete CGT exemption (financial cost), some policy considerations for the Canadian context and alternative policies were proposed. Lastly, tax incentive parity between EOTs, worker co-operatives, and worker shareholder co-operatives was advocated for.

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