By Representative Ryu

SSB 5096 - H COMM AMD
By Committee on Innovation, Community & Economic Development, & Veterans

Strike everything after the enacting clause and insert the following:

"NEW SECTION. **Sec. 1.** The legislature finds that:

Employee ownership in companies provides numerous benefits to both businesses and workers across all industries. Research from the national center for employee ownership found that one such structure, employee stock ownership plans, had better workforce retention, benefits and retirement security, and firm performance than nonemployee stock ownership plans companies in the same industry. In addition, the Rutgers school of management and labor relations found that employee-owned companies outperformed nonemployee-owned companies in job retention, pay, and workplace health safety throughout the COVID-19 pandemic. At their core, employee ownership structures allow employees to gain ownership stake in a business, increasing their personal wealth without the risks related to starting or purchasing their own company.

States throughout the nation have moved to provide support for employee ownership structures. The Colorado employee ownership office has operated since 2019 to create a network of technical support and service providers considering employee ownership structures. Recently, both California and Massachusetts passed legislation to establish their own dedicated employee ownership support programs. Other states, such as Iowa, provide tax benefits and upfront costs to businesses interested in employee ownership.

Further, the federal government has recognized the benefit broad-based employee ownership structures provide to communities. The American rescue plan act included $10,000,000,000 for the state small business credit initiative. Through that act congress also directed the treasury department to allow state small business credit initiative funding to be used for transitions to employee ownership,

when state small business credit initiative funding has not been historically available for business transactions.

The legislature desires to provide a dedicated program to educate businesses on employee ownership, assist both owners and workers in navigating available resources, reduce barriers to transitioning to employee-owned structures, and provide tax support for businesses that transition to an employee ownership structure.

Therefore, it is the intent of the legislature to encourage the growth of employee ownership structures through this expanding employee ownership act.

NEW SECTION. **Sec. 2.** A new section is added to chapter 43.330 RCW to read as follows:

(1) The Washington employee ownership program is created to support the efforts of businesses considering a sale to an employee ownership structure. The Washington employee ownership program must be administered by the department and overseen by the Washington employee ownership commission established in section 3 of this act.

(2)(a) In implementing the Washington employee ownership program, the director must:

(i) Create a network of technical support and service providers for businesses considering employee ownership structures;

(ii) Work with state agencies whose regulations and programs affect employee-owned businesses, and businesses with the potential to become employee owned, to enhance opportunities and reduce barriers;

(iii) Partner with relevant private, nonprofit, and public organizations including, but not limited to, professional and trade associations, financial institutions, unions, small business development centers, economic and workforce development organizations, and nonprofit entities to promote employee ownership benefits and succession models;

(iv) Develop and make available materials regarding employee ownership benefits and succession models;

(v) Provide a referral service to help qualified business owners find appropriate legal, financial, and technical employee ownership resources and services;

(vi) Work with the department of financial institutions and appropriate state, private, and nonprofit entities to shape and

implement guidance on lending to broad-based employee ownership vehicles;

(vii) Create an inventory of employee-owned businesses in the state including employee stock ownership plans, worker cooperatives, and employee ownership trusts; and

(viii) Subject to the successful award of federal funding for this purpose, establish a revolving loan program to assist existing small businesses to finance a transition to employee ownership.

(b) Loans offered by the revolving loan program must be used to help facilitate the purchase of an interest in an employee stock ownership plan or worker-owned cooperative from the owner or owners of a qualified business, provided that:

(i) The transaction results in the employee stock ownership plan or worker cooperative holding a majority interest in the business, on a fully diluted basis; and

(ii) If used to assist in the purchase of an interest in an employee stock ownership plan, the employee stock ownership plan: (A) Has appointed an independent trustee; or (B) has, as a trustee, person, or entity, completed education on best practices for employee stock ownership plans.

(c) Loans financing the sale of an interest to a worker cooperative shall be extended based on repayment ability and shall not require a personal or entity guarantee. In meeting the requirement in (b) of this subsection, lending guidelines must be established for worker cooperatives not based on any personal or entity guarantees provided by the member owners or the selling business owner. These guidelines may include but are not limited to cash flow-based underwriting, character-based lending, and reliance on business assets.

(d) In order to support the revolving loan program, the director or the director's designee must apply for federal funding opportunities that:

(i) Support capitalization of state revolving loan programs; and

(ii) Support businesses that seek to transition to employee ownership.

(e) Amounts from the repayment of loans offered by the revolving loan program must be deposited in the employee ownership revolving loan program account established in section 6 of this act.

(3) The director or the director's designee may contract with consultants, agents, or advisors necessary to further the purposes of this section.

(4) By December 1st each year, the department must submit a report to the appropriate committees of the legislature on program activities and the number of employee-owned businesses and employee-owned trusts in the state, including recommendations for improvement and barriers for businesses considering employee ownership structures in Washington state. The first report must include rules and guidelines for the administration of the program, as established by the Washington employee ownership commission.

(5) For the purposes of this section:

(a) "Employee-owned business" means:

(i) An employee cooperative established under chapter 23.78, 23.86, 23.100, or 24.06 RCW that has at least 50 percent of its board of directors consisting of, and elected by, its employees; or

(ii) An entity owned in whole or in part by employee stock ownership plans as defined in 26 U.S.C. Sec. 4975(e)(7).

(b) "Qualified business" means a person subject to tax under Title 82 RCW, including but not limited to a C corporation, S corporation, limited liability company, partnership, limited liability partnership, sole proprietorship, or other similar pass-through entity, that is not owned in whole or in part by an employee ownership trust, that does not have an employee stock ownership plan, or that is not, in whole or in part, a worker-owned cooperative.

(6) Program support shall only be made available to businesses headquartered in Washington state. For the purposes of this section, "headquartered in Washington state" means that Washington state is its principal place of business or the state where it is incorporated.

(7) The director shall adopt rules as necessary to implement this section.

NEW SECTION. **Sec. 3.** A new section is added to chapter 43.330 RCW to read as follows:

(1) The Washington employee ownership commission is hereby created to exercise the powers in developing and supervising the program created in section 2 of this act.

(2) The commission shall consist of:

(a) One member from each of the two major caucuses of the house of representatives to be appointed by the speaker of the house and one member from each of the two major caucuses of the senate to be appointed by the president of the senate. The initial term shall be two years; and

(b) The following members appointed by the governor:

(i) Five members who represent the private sector or professional organizations as follows:

(A) One representative of a worker cooperative business. The initial term shall be four years;

(B) One representative of an employee stock ownership plan business. The initial term shall be four years;

(C) One representative from a statewide business association. The initial term shall be two years;

(D) One economic development expert, from the private sector, with employee ownership knowledge and experience. The initial term shall be four years; and

(E) One representative from a financial institution with expertise in assisting businesses transitioning into an employee ownership structure. The initial term shall be two years; and

(ii) Two members who represent the public sector as follows:

(A) One economic development expert, from the public sector. The initial term shall be four years; and

(B) One representative from the department of commerce, who will chair the first meeting prior to the election of the chair. The initial term shall be four years.

(3) After the initial term of appointment, all members shall serve terms of four years and shall hold office until successors are appointed.

(4) The commission shall be led by a chair selected and voted on by members of the commission. The chair shall serve a one-year term but may serve more than one term if selected to do so by members of the commission.

(5) The commission shall develop, in consultation with the director, rules and guidelines to administer the program. Rules and guidelines for the administration of the program must be included in the first report to the legislature required in section 2 of this act.

(6) Before making any appointments to the commission, the governor must seek nominations from recognized organizations that

represent the entities or interests identified in this section. The governor must select appointees to represent private sector industries from a list of three nominations provided by the trade associations representing the industry, unless no names are put forth by the trade associations.

(7) The commission shall conduct market research for the purposes of, or to support, a future application to the federal government for a program to assist in the purchase of an interest in an employee stock ownership plan qualifying under section 401 of the internal revenue code, worker cooperative, or related broad-based employee ownership vehicle.

(8) For purposes of this section, a "professional organization" includes an entity whose members are engaged in a particular lawful vocation, occupation, or field of activity of a specialized nature including, but not limited to, associations, boards, educational institutions, and nonprofit organizations.

NEW SECTION. **Sec. 4.** (1) This section is the tax preference performance statement for the tax preference contained in section 5, chapter . . ., Laws of 2023 (section 5 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes this tax preference as one intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(3) It is the legislature's specific public policy objective to encourage business owners to create an employee stock ownership plan or employee ownership trust, or to convert to a worker-owned cooperative, that allows the company to share ownership with their employees without requiring employees to invest their own money.

(4) If a review finds that the number of businesses in this state offering employee stock ownership plans, employee ownership trusts, or ones that have converted to a worker-owned cooperative, has increased because of the tax credit under this act, then the legislature intends for the legislative auditor to recommend extending the expiration date of the tax preference.

(5) In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and

review committee may access and use any relevant data collected by the state.

NEW SECTION. **Sec. 5.** A new section is added to chapter 82.04 RCW to read as follows:

(1) Beginning July 1, 2024, in computing the tax imposed under this chapter, a credit is allowed for costs related to converting a qualifying business to a worker-owned cooperative, employee ownership trust, or an employee stock ownership plan, as provided in this section.

(2) The credit is equal to:

(a) Up to 50 percent of the conversion costs, not to exceed $25,000, incurred by a qualified business for converting the qualified business to a worker-owned cooperative or an employee ownership trust; or

(b) Up to 50 percent of the conversion costs, not to exceed $100,000, incurred by a qualified business for converting the qualified business to an employee stock ownership plan.

(3)(a) Credit under this section is earned, and claimed against taxes due under this chapter, for the tax reporting period in which the conversion to a worker-owned cooperative, employee ownership trust, or an employee stock ownership plan is complete, or subsequent tax reporting periods as provided in (c) of this subsection.

(b) The credit must not exceed the tax otherwise due under this chapter for the tax reporting period.

(c) Unused credit may be carried over and used in subsequent tax reporting periods, except that no credit may be claimed more than 12 months from the end of the tax reporting period in which the credit was earned.

(d) No refunds may be granted for credits under this section.

(4)(a) The total amount of credits authorized under this section may not exceed an annual statewide limit of $2,000,000.

(b) Credits must be authorized on a first-in-time basis.

(c) No credit may be earned, during any calendar year, on or after the last day of the calendar month immediately following the month the department has determined that $2,000,000 in credit has been earned.

(5)(a) The department may require persons claiming a credit under this section to provide appropriate documentation, in a manner as

determined by the department, for the purposes of determining eligibility under this section.

(b) Every person claiming a credit under this section must preserve, for a period of five years, any documentation to substantiate the amount of credit claimed.

(6) For the purposes of this section:

(a) "Conversion costs" means professional services, including accounting, legal, and business advisory services, as detailed in the guidelines issued by the department, for: (i) A feasibility study or other preliminary assessments regarding a transition of a business to an employee stock ownership plan, a worker-owned cooperative, or an employee ownership trust; or (ii) the transition of a business to an employee stock ownership plan, a worker-owned cooperative, or an employee ownership trust.

(b) "Employee ownership trust" means an indirect form of employee ownership in which a trust holds a controlling stake in a qualified business and benefits all employees on an equal basis.

(c) "Employee stock ownership plan" has the same meaning as set forth in 26 U.S.C. Sec. 4975(e)(7), as of the effective date of this section.

(d) "Qualified business" means a person subject to tax under this chapter, including but not limited to a C corporation, S corporation, limited liability company, partnership, limited liability partnership, sole proprietorship, or other similar pass-through entity, that is not owned in whole or in part by an employee ownership trust, that does not have an employee stock ownership plan, or that is not, in whole or in part, a worker-owned cooperative, and that is approved by the department for the tax credit in this section.

(e) "Worker-owned cooperative" has the same meaning as set forth in 26 U.S.C. Sec. 1042(c)(2), as of the effective date of this section, or such subsequent dates as may be provided by rule by the department, consistent with the purposes of this section.

(7) Credits allowed under this section can be earned for tax reporting periods starting on or before June 30, 2029. No credits can be claimed on returns filed for tax periods starting on or after July 1, 2030.

(8) This section expires July 1, 2030.

NEW SECTION. **Sec. 6.** A new section is added to chapter 43.330 RCW to read as follows:

The employee ownership revolving loan program account is created in the custody of the state treasury. All transfers and appropriations by the legislature, repayments of loans, private contributions, and all other sources must be deposited into the account. Expenditures from the account may be used only for the purposes of the Washington employee ownership program created in section 2 of this act. Only the director or the director's designee may authorize expenditures from the account. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

NEW SECTION. **Sec. 7.** Sections 4 and 5 of this act take effect July 1, 2024.

NEW SECTION. **Sec. 8.** This act may be known and cited as the expanding employee ownership act."

Correct the title.

EFFECT: Modifies the membership of the Washington Employee Ownership Commission by: (1) Including one member representing a worker cooperative business instead of a small business utilizing employee ownership structures; and (2) including one member representing an employee stock ownership plan business instead of a large business utilizing employee ownership structures.

Provides that the definition of "worker-owned cooperative," for purposes of the business and occupation tax credit provisions, has the same meaning as the federal definition in effect as of the effective date of the provisions, or subsequent dates as provided by administrative rule.

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