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Testimony in Support of
Senate Bill 561 - Income Tax - Subtraction Modification - Employee-Owned Businesses
Senate Budget and Taxation Committee
February 16, 2022

The Rural Maryland Council supports Senate Bill 561 - Income Tax - Subtraction Modification - Employee-Owned Businesses. This bill creates a subtraction modification against the State individual and corporate income tax for any income from a qualified transfer of stock or membership interest of a Maryland corporation or limited liability company (LLC). If the qualified transfer is to a direct share ownership plan, the subtraction is limited to the lowest amount of stock or membership interest transferred to any tenured employee during the taxable year multiplied by the number of all tenured employees. The promotion of more Employee stock ownership plans (ESOPs) will ultimately benefit the rural and underserved areas of Maryland.

ESOPs are worker owned cooperatives, meaning the business is owned and managed by the workers. Being a worker for a cooperative comes with specific advantages. For example, cooperative workers generally receive higher wages than non-cooperative workers. Through collaboration and building economies of scale, this solution is able to work in all underserved communities of the State, not just rural communities.

Much of rural entrepreneurship exists of family owned and operated businesses. As our rural population is aging, succession and exit planning for family businesses are vital to ensure the businesses' future continuation and vitality. Succession and exit planning will help ensure that these businesses do not cease to exist when the owners decide to retire or move on to other endeavors.

In Fiscal Year 2017, the Rural Maryland Council awarded a grant to Frostburg State University Office of Research Sponsored Programs to conduct a feasibility study to investigate the need for business succession and exit planning strategies in western Maryland. The University investigated two business succession and exit planning programs, one in Kansas and another in Pennsylvania. As a part of the grant scope of work, the University interviewed 20 businesses regarding succession planning and identified 5 alumni interested in pursuing such opportunities. While it determined that there is a need to offer succession and exit planning services, there were not enough alumni interested in taking over such businesses. Employee stock ownership plans are a viable alternative to ensuring the retention of our rural small businesses and their continued vitality.

The Rural Maryland Council respectfully requests your favorable support of Senate Bill 561.

The Rural Maryland Council (RMC) is an independent state agency governed by a nonpartisan, 40-member board that consists of inclusive representation from the federal, state, regional, county and municipal governments, as well as the for-profit and nonprofit sectors. We bring together federal, state, county and municipal government officials as well as representatives of the for-profit and nonprofit sectors to identify challenges unique to rural communities and to craft public policy, programmatic or regulatory solutions.

"A Collective Voice for Rural Maryland"