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Appropriations Committee

Subcommittees

Capital Budget

Chair, Transportation and the  
Environment

Oversight Committee on Personnel



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THE MARYLAND HOUSE OF DELEGATES  
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Income Tax – Subtraction Modification – Employee-Owned Businesses Act (HB 403)  
Testimony of Delegate Marc Korman—Favorable

Thank you Madam Chair, Mr. Vice Chair, and members of the Ways and Means committee. I come before you today to discuss HB 403 (Income Tax – Subtraction Modification – Employee-Owned Businesses). The legislation provides a 100% state capital gains tax exemption to businesses who transition to Employee Stock Ownership Plans (ESOPs). HB 403 benefits the many small businesses that have no succession plan for when the owner retires.

According to the Small Business Association, Maryland lost approximately 35,000 jobs due to the permanent closure of businesses with more than 20 employees between 2001 and 2010. The decline was due in part to the fact that 82 percent of business owners have no exit plan. Also, less than half of closely held businesses find a buyer when they're ready to sell. With 60 percent of businesses owned by baby boomers, job losses associated with the generational transition are expected to increase.

HB 403 helps address the issue of retiring business owners by providing financial incentives for those business owners to form ESOPs. Employee-ownership is a way to structure businesses so that they are operated for the benefit of the employees, allowing the employees to enjoy the financial rewards of successful operations. There is a long list of successful employee-owned businesses in the US and in Maryland, including but not limited to W.L. Gore & Associates, and the New Belgium Brewing Company.

An ESOP is a qualified retirement plan, similar to a 401k plan but it is set up as a trust fund, and qualifying employees are automatically enrolled to receive beneficial ownership in the company. ESOPs also provide individual retirement accounts so when employees decide to leave or retire, they receive payment based on the value of those shares. ESOPs encourage lower turnovers and higher longevity, and for most ESOPs, unlike a 401k, there is no cost to the employee. For business owners, ESOPs can be used as an exit or liquidity vehicle, and owners can decide how much of their business they wish to sell.

HB 403 also includes Direct Share Ownership Plan (DSOP) and Employee Ownership Trust (EOT), which are also employee ownership but can be less expensive and easier for some companies to navigate. The availability of different employee ownership options for corporations and companies will allow owners to select the best fit for their company, employees, and themselves.

By increasing incentives for employee ownership, it will be easier for owners to retire or sell their company without risking their employee's job security. Employee ownership plans have been proven to help companies grow faster, and because employees feel they have a stake in the company, there is greater productivity, profitability, and increased revenue. HB 403 will help improve worker retention, protections and benefits. I urge a favorable report.