



TESTIMONY

Presented to:

Maryland Senate
Budget & Taxation Committee

Maryland House
Ways & Means Committee

Wednesday, February 9, 2022

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Good afternoon distinguished members of the Senate Budget & Taxation Committee and House Ways & Means Committee. My name is Christopher W. Michael. I am Policy Director of the Maryland Center for Employee Ownership, a nonprofit organization dedicated to supporting employee ownership in the state of Maryland. For purposes of identification, I am also Managing Director of the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University, which is the leading global academic institute and fellowship program for scholarship on employee share ownership. I am also an Assistant Professor at the Rutgers School of Management and Labor Relations, and serve on the Advisory Board of the New Jersey/New York Center for Employee Ownership. Additionally, I am the founder of EOT Advisors, which is the first investment banking and financial advisory firm in the country dedicated to assisting business owners sell to an Employee Ownership Trust (EOT). I hold law licenses in New York, New Jersey, Minnesota, and the District of Columbia. And I should add that I have family in Maryland. All of my in-laws are based in Burtonsville, MD. And my wife was raised in Montgomery County.

Senate Bill 409/House Bill 403, which concerns an income tax subtraction-modification for business owners transferring ownership to their employees, builds on lessons learned from four decades of federal experience in promoting employee ownership. Employee ownership is already an important part of the American economy, with 14 million workers and 7,000 companies, including brand names such as Publix Supermarkets (180K employees, \$32B in annual revenue), Gore-Tex (10K employees, \$3B in annual revenue), and Burns & McDonnell (5K employees, \$2.5B in annual revenue).ⁱ At a time of political polarization, increasing employee ownership remains bipartisan in support.ⁱⁱ Recent polling of American adults on the question “Do you support or oppose the concept of companies being owned by their employees, so that all the workers at a company share in its success?” showed that 68% of Americans are in support. That figure includes a majority of Republicans polled, a majority of Democrats polled, and a majority of Independents polled.ⁱⁱⁱ

Employee ownership is not only popular. It is also good for the economy. There is wide scholarly consensus that, as compared to conventional corporations, employee-owned businesses:

- achieve higher productivity with increased sales;^{iv}
- enjoy lower turnover and greater longevity;^{vvi}
- offer better employment opportunities;^{vii}
- retain jobs in-state and avoid relocating out-of-state;^{viii}
- sustain the state tax base through employee and corporate income tax;^{ix} and
- save costs on unemployment insurance and other state benefit programs.^{xxi}

Today, the ESOP business community and ESOP professional services firms agree that the next big leap in employee ownership will result from expansion of well-tested federal tax benefits by providing a 100% capital gains tax exemption at the state level. SB 409/HB 403 would achieve this change.

However, SB 409/HB 403 accomplishes another very significant change. Although the ESOP structure has proved to be a tremendous success, it is not necessarily a one-size-all

solution for all businesses and all business owners. The complexity and cost of ESOP plans make installation of an ESOP daunting for some small business owners. In addition, ESOP companies are subject to a future sale back into conventional ownership, which disinclines some owners from adopting an ESOP or transitioning to majority employee ownership.^{xiixiiiixivxxvi} In order to accommodate the diversity of business types and business interests in Maryland, SB 409/HB 403 makes provision for two new types of employee ownership: Employee Ownership Trusts (EOT) and Direct Share Ownership Plans (DSOP). These programs are simpler and less expensive than ESOPs to implement and administer, and allow business owners the option of perpetual employee ownership. I would add that I have published law review articles on the EOT structure in the American Bar Association's *Probate & Property* and in *Tax Notes*. I have also worked with over two dozen companies throughout the country on adopting an EOT.

Finally, I would add that we were very glad to see that the Department of Legislative Services gave SB 409/HB 403 an essentially revenue-neutral rating in this year's fiscal analysis. Their analysis also described the many benefits that might be derived from an ESOP, and mentioned the positive impact that the bill is likely to have on the small business community. We would only add that we believe SB 409/HB 403 will likely be a driver of revenues for the state when factoring in savings to the state on unemployment insurance and other unemployment-related benefits, as well as increased revenue from employee income taxes, corporate income taxes, and sales taxes, which are achieved by retaining jobs and businesses in the state of Maryland.^{xvii}

Respectfully submitted,

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