



S.177/H.R. 2258 - Promotion and Expansion of Private Employee Ownership Act of 2019

ESOP

An Employee Stock Ownership Plan is a tax-qualified retirement plan regulated under ERISA that provides a company's workforce with ownership interest in the company.

Employee & Community Benefits

- Research has shown ESOPs contribute to local economic stability and job growth because the ownership is more deeply embedded in the community.
- ESOP employees enjoy greater job security.
- ESOP employees have much greater retirement savings than the average American worker.
- Over 93% of all ESOPs also offer 401(k) retirement plans in addition to the ESOP, but the ESOP plan requires NO out of pocket contribution by the employee.

Economic Benefits

- Direct correlation between employee ownership and enhanced productivity and performance.
- Less likely to lay off workers, more likely to invest in workforce training.
- Stabilize the economic base of local communities as businesses are less likely to relocate
- Provides a viable mechanism for employees to purchase the businesses where they work if an owner is ready to retire or sell.

Background:

- Senators Pat Roberts (R-KS) and Benjamin Cardin (D-MD) introduced S.177 on 01/17/19 (currently 35 cosponsors – 16R/17D/2I)
- Representatives Ron Kind (D-WA) and Jason Smith (R-MO) introduced HR 2258 on 04/10/19 (currently 47 cosponsors – 24R/23D)
- The legislation includes provisions that seek to:
 - **Expand financing opportunities** for S Corp ESOPs
 - **Provide technical assistance** for companies that may be interested in forming an S Corporation ESOP
 - Ensure that small businesses adopting ESOPs **retain their Small Business Administration 8(a) preference** when competing for government contracts at all levels

Summary:

These companion bills encourage the establishment of employee stock ownership plans in S corporations, thereby promoting retirement security and employee ownership.

Under current law, the sale of C corporation stock to an ESOP qualifies for a deferral of capital gains however the sale of S corporation stock to an ESOP does not. The bills would equalize the treatment of S Corp and C Corp stock under IRC Section 1042(c)(1) by extending the deferral to include S Corps; provide technical assistance to ESOPs; clarify that S corporation ESOPs may retain their small business status with the SBA, and take other steps to encourage the creation of ESOPs in S corporations.

Ask:

- The ESOP Association requests that you please consider co-sponsoring the legislation
- For more information: Contact The ESOP Association (202) 297-2971 or ADVOCACY@esopassociation.org