

Members Update

Congress Could Raise Almost \$10 Billion by Ending ESOP Tax Preferences, Congressional Budget Office Offers

On Friday ESCA alerted its members that the U.S. Congressional Budget Office (CBO), the entity which is responsible for analyzing the federal budget and actions that affect the budget, had issued a guide for Congress including options for raising new tax revenues. Option 19 on the list was to have Congress “end the preferential [tax] treatment” for ESOPs.

In its guidebook, which many in Congress will use as a how-to map for identifying pots of funding to offset other, costly legislation, CBO offers up that the government could save nearly \$10 billion over the next decade by ending “the preferential treatment of dividends paid on stock held in employee stock ownership plans.” As the report notes, **“this option would eliminate the tax advantages that are now accorded to ESOPs, effectively rendering them indistinguishable from other qualified retirement plans.”**

The CBO report does not single out the tax treatment of Subchapter S ESOP companies.

While CBO is, as we indicated last week, not advocating for this “budget option,” it is noteworthy that the CBO analysts put forth only 65 options to raise revenue. Several other, more widely talked about “revenue raisers” were not included in the CBO analysis. The inclusion of ESOP tax preferences in CBO’s report reinforces that it is not only important, but urgent, that ESCA work to strengthen Congressional support for private ESOP companies. ESCA will be more active than ever this year to focus on these critical objectives. Stay tuned for an update very soon on Washington advocacy programs you can be part of!

Chairman Rangel Tells ESCA He Supports Employee Ownership, But Warns One Bad Actor Could Harm All S ESOPs on Capitol Hill

At last week’s highly successful ESCA/Foundation for Private Employee Ownership Leadership Summit meeting, House Ways and Means Committee Chairman Charlie Rangel (D-NY) joined participants by live videoconference. Chairman Rangel noted that while he supports ESOPs, there is no guarantee that ESOP companies will be untouched by Congress. If, for example, there is evidence of foul play by even one private ESOP company, it could have disastrous implications for all private ESOP companies in Congress. ESCA continues to be very active in promoting and helping to shape anti-abuse measures that ensure that the S ESOP structure is used as it was intended by Congress.

Importantly, Chairman Rangel agreed to work with ESCA to help communicate the benefits of ESOPs and ESCA’s efforts in this area to House Education and Labor Chairman George Miller (D-CA), who has questioned the appropriateness of the S ESOP structure in the past. Miller not only heads the House pension committee, but also is a key ally of House Speaker Nancy Pelosi; his views of S ESOPs are extremely important to policy decisions affecting ESCA member companies, and we will follow up with Chairman Rangel on his offer to help us communicate the value of S ESOP companies to Chairman Miller.