ESCA

November 16, 2010

The Hon. Paul Volcker
Chairman
President's Economic and Recovery Advisory Board
610 5th Ave., Suite 420
New York, NY 10020

Dear Chairman Volcker:

On behalf of the more than 75,000 employee-owners represented by the Employee-Owned S Corporations of America ("ESCA"), I am writing to address the inclusion in your "Report on Tax Reform Options" of employee stock ownership plans ("ESOPs") as a possible "base-broadener" in a business tax reform initiative. ESCA's views are specific to corporations taxed under subchapter S of the Internal Revenue Code that are owned by ESOPs ("S corporation ESOPs").

As you may be aware, Congress determined that, beginning in 1998, employees of a subchapter S corporation should be permitted to own their company through an ESOP in order to allow employee ownership of closely-held businesses and to provide a source of capital for such businesses. The evidence overwhelmingly demonstrates that the "tax expenditure," or investment, made by Congress to promote employee ownership of closely-held businesses has yielded measurable returns reflected in retirement savings, and job growth and retention.

I wish to bring to your attention the following facts relevant to any assessment of S corporation ESOPs:

- The S corporation ESOP structure is responsible for generating $14 billion in savings for its employee owners each year beyond the income they would otherwise have earned, and a cumulative $19 billion in annual U.S. economic value, which is in part retained by S corporations and used to create new jobs.[1]

- Employee owners of S corporation ESOPs have account balances three to five times higher than the U.S. average for 401(k) plans and five to seven times higher for those S corporation ESOP employee owners nearing retirement age.[2]

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[1] Steven Freeman and Michael Knoll, "S Corp ESOP Legislation Benefits and Costs: Public Policy and Tax Analysis", University of Pennsylvania, *2008*.
[2] Rosen, Corey, "Retirement Security and Wealth Accumulation in S ESOP Companies", The National Center for Employee Ownership, *2005*.

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- A wide range of S corporation ESOP companies across different industries and geographies reported having increased their contributions to employee retirement benefits by 19% -- more than six times the rate of other U.S. companies.[3]

- S corporation ESOPs report economic growth and employment data substantially better than comparable companies in their industries.[4]

In summary, S corporation ESOPs are the most successful qualified retirement savings account available to U.S. workers. S corporation ESOPs generate critically needed savings, disproportionately so for working-class Americans, which provide a considerable measure of retirement security for those American workers who otherwise would have little or none. Moreover, I understand from ESCA members that the capital that the S corporation ESOP structure provides keeps companies and jobs intact when foreign owners attempt to acquire businesses and move American jobs offshore.

These are but a few of the facts that demonstrate that the S corporations ESOP structure is efficiently and effectively accomplishing what Congress intended and should be preserved.

In an environment where difficult tax policy decisions will have to be made to balance competing budget interests, we hope that the Board and the Administration will not only recognize, but indeed tout, the success of S corporation ESOPs, particularly with respect to their ability to generate savings, job stability and retirement security benefits that otherwise would not be available to many working class Americans

Please let me know if you have any questions. Thank you for considering these important facts.

Respectfully yours,

Mark Lewis
Chairman of the Board

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[3] Phillip Swagel and Robert Carroll, "Resilience and Retirement Security: Performance of S-ESOP Firms in the Recession", Georgetown University McDonough School of Business, *2010*.
[4] Phillip Swagel and Robert Carroll, "Resilience and Retirement Security: Performance of S-ESOP Firms in the Recession", Georgetown University McDonough School of Business, *2010*.