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UpFront:Employee Ownership

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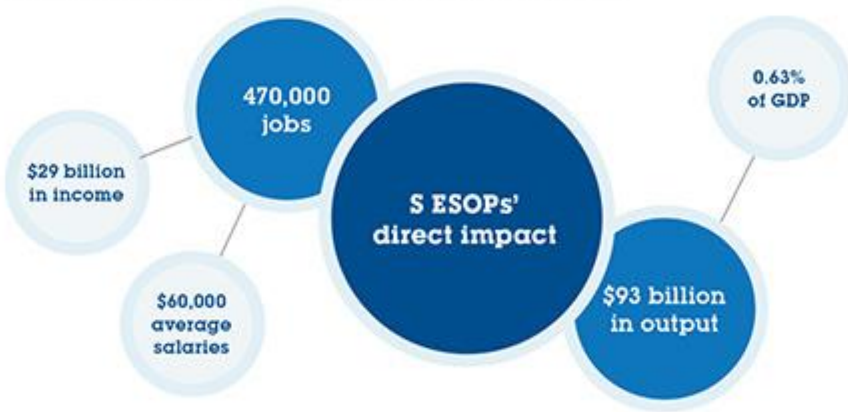
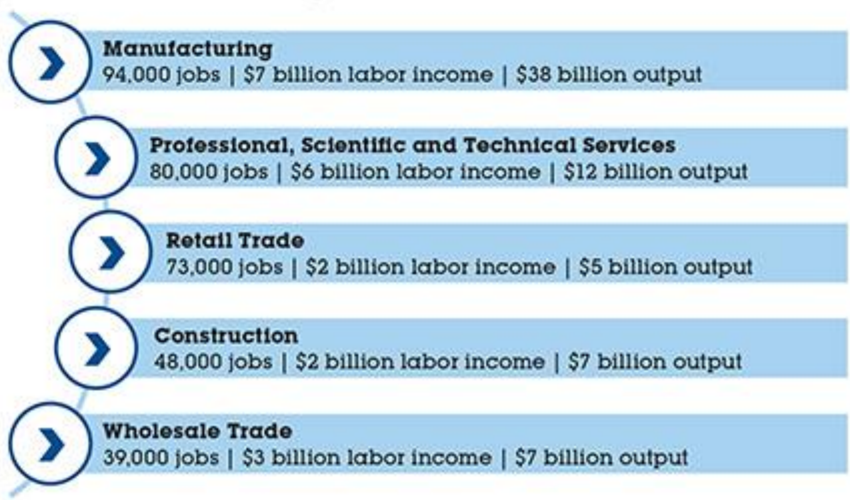
FIGURE 1. **Direct Economic Impact of S ESOPs in 2010**



Source: "Macroeconomic Impact of S ESOPs on the U.S. Economy"

FIGURE 2. **Direct Effects of Top Five S ESOP Industries**



Source: "Macroeconomic Impact of S ESOPs on the U.S. Economy"

Bill would encourage more S corporation ESOPs

New legislation has been introduced in the Senate that aims to help employees gain retirement savings and security through stock ownership.

Sens. Ben Cardin, D-Maryland, and Pat Roberts, R-Kansas, co-sponsored the Promotion and Expansion of Private Employee Ownership Act (PEPEOA). According to Cardin, the legislation will make it easier for S corporations—which elect to be taxed under Subchapter S of Chapter 1 of the Internal Revenue Code (IRC)—to sponsor employee stock ownership plans (ESOPs). The act will also provide parity between C corporations, which are taxed separately from their employers, and S corporations.

Cardin said the senators support this legislation because it will help the economy grow, encourage entrepreneurship and increase employees' retirement savings. He said that research indicates employees with ESOPs are much better prepared for retirement, having three to five times more savings than employees with 401(k)s, and that ESOPs increase employee productivity and boost the economy. More specific details about the legislation (S.742) include:

- **Section 3** would extend the gain-deferral provisions of Section 1042 to sales of employer stock to S corporation ESOPs. Under current law, Section 1042 allows an individual owner of stock in a nonpublicly traded C corporation that sponsors an ESOP to elect to defer the recognition of gain from the sale of such stock to the ESOP if the seller reinvests the sales proceeds into "qualified replacement property," such as stock or other securities issued by a U.S. operating corporation. After the sale, the ESOP must own at least 30% of the employer corporation's stock. The deferred gain from the sale of employer stock to an ESOP generally must be recognized upon a subsequent sale or exchange of the qualified replacement property. This section extends the tax treatment of a sale to a C corporation ESOP to S corporation ESOPs.
- **Section 4** would create an office in the Department of the Treasury for S corporation employee ownership assistance, to foster increased employee ownership of S corporations. The office would provide outreach about the possibilities and benefits of employee ownership of S corporations and provide technical assistance to companies that may be interested in forming an S ESOP.
- **Section 5** would permit a Small Business Administration (SBA)-certified small business to remain eligible for SBA programs after becoming majority-owned by an ESOP if employee demographics remain the same.

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