

Employee Ownership Desk Aid

For Business-facing team members serving as “deal-spotters” for an employee ownership strategy.

Employee ownership is an excellent option for any business owner who want to increase **worker engagement**, facilitate **succession planning**, reduce personal and business **tax liability**, or—for businesses primarily employing workers of color—**improve racial equity**. Listen for business owners who are **concerned about the future of their businesses**, who are **invested in their communities**, and who may be **considering retirement, looking for a buyer** to sell their business to, or interested in gaining **greater liquidity**. Employee ownership usually doesn't work in industries where owners must hold professional licenses or security clearances (e.g. medical practices, lawyers, CPAs, or veterinarians—but engineering firms are allowed). A worker's immigration status is not a significant obstacle.

There are three major options for employee ownership: **worker cooperatives, Employee Ownership Trusts,** and **Employee Stock Ownership Plans** (ESOPs). Worker cooperatives are 100% owned and governed by employees; workers must “buy in” to the coop, and shares of profit are based on hours worked. The setup costs are low.

Employee Ownership Trusts (EOTs), sometimes called Perpetual Employee Trusts, offer an option that safeguards the ownership over the long term by blending the trust structure with some of the democratic qualities of the worker-owned cooperatives. An Employee Ownership Trust (EOT) is a trust that holds some or all of the shares of a company on behalf of the employees. An EOT ensures employees have a share in profits, a voice in governance and that the mission of the business—and its jobs—can be preserved for generations to come.

ESOPs are qualified retirement plans (like a 401k), and shares are provided as a free retirement benefit. A business owner can sell anywhere between 30% and 100% of their company to the ESOP. ESOPs come with truly extraordinary tax benefits: (1) the Set-up costs and entire sales price are deductions; (2) a 100% ESOP S-corp pays no income tax (but do pay franchise tax); and (3) selling shareholders are eligible for capital gains deferral if proceeds are invested in qualified instruments (stocks). Sellers can access most of proceeds tax free during their lifetime, and heirs inherit remaining value on a stepped-up basis.

The setup costs of an ESOP are higher, and typically an **ESOP is only worthwhile for more established companies** (about 10 years old or older) with at least 20 employees and a demonstrated history of profitability. Establishing an ESOP can be more profitable than selling to a traditional buyer because tax benefits make selling to an ESOP more profitable at the same price. Construction is a popular sector for ESOPs because construction firms often don't have buyers, so selling to employees is a great option..

[INSERT SPECIFIC OFFERINGS YOUR AGENCIES IS PROVIDING]