



February 13, 2022

SUMMARY OF BILL: Establishes tax incentives for small businesses to establish employee stock ownership plans (ESOPs), an employee ownership trust (EOT), or convert to a worker-owned cooperative (WOC) through an excise tax credit. The excise tax credit will support covering costs through the conversion to employee ownership and can be realized in the year when the conversion to employee ownership is complete. Sets the maximum amount of total tax credits at \$10,000,000 per year. Limits such tax credits to tax years 2023 through 2027.

Exempts ESOPs, WOCs, and EOTs from the business tax, beginning with tax years beginning on or after January 1, 2023.

Extends the application of the *Tennessee Minority-Owned, Woman-Owned, Service-Disabled Veteran-Owned, Business Owned by Persons with Disabilities, and Small Business Procurement and Contracting Act* (Act) to Tennessee employee-owned businesses.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$275,000/FY22-23
\$600,000/Each FY23-24 through FY27-28
\$50,000/FY28-29 and Subsequent Years

Decrease Local Revenue – \$50,000/FY23-24 and Subsequent Years

Assumptions:

- The proposed legislation covers up to 50 percent of the conversion costs incurred by a qualified business for conversion to a WOC, an EOT, or ESOPs.
- Costs that are eligible to be covered by the legislation include accounting, tax planning, business advisory, audits, travel, third-party administration, legal services, and expenses necessary to determining the feasibility and structure of conversion.
- The maximum amount eligible to cover the conversion to a WOC and an EOT is \$25,000. The maximum amount eligible to cover the conversion to an ESOP is \$100,000.
- According to the National Center for Employee Ownership (NCEO), 239 new ESOPs were created in 2019, growing 3.83 percent from 2018.
- Based on data from the NCEO, there are currently 91 ESOPs and 2 WOCs in Tennessee.

- For the purposes of this analysis, it assumed that the number of businesses who convert to ESOPs will grow at five percent (or approximately five ESOPs) a year based from the number of current ESOPs in Tennessee and assuming additional creation as a result of the incentives provided by this legislation. It is assumed that the number of businesses who convert to an EOT or a WOC per year will be one.
- For the purposes of this analysis, it is assumed that businesses who undergo the conversion to employee ownership will use the maximum amount eligible. The first-year (FY22-23) impact will be limited to 50 percent of the full-year impact. The last fiscal year in which the tax credits will be utilized is FY27-28.
- The decrease in state revenue in each FY23-24 through FY27-28 is estimated to be \$550,000 [(\$100,000 x 5 ESOPs) + (\$25,000 x 1 EOT) + (\$25,000 x 1 WOC)]. The decrease in state revenue in FY22-23 will be \$275,000 (\$550,000 x 50%).
- The proposed legislation exempts ESOPs, EOTs, and WOCs from The Business Tax Act. The precise impact of such tax exemptions is unknown, but based on the average business tax liability of entities required to pay the Business Tax, any decrease in revenue is estimated to be relatively limited.
- For the purposes of this fiscal analysis, it is assumed that the decrease in revenue will not exceed \$50,000 for the state government and \$50,000 for the local government. These impacts will begin in FY23-24 and will continue into perpetuity.
- The total decrease in state revenue is estimated to be \$275,000 in FY22-23, \$600,000 in each FY23-24 through FY27-28 (\$550,000 + \$50,000), and \$50,000 in FY28-29 and subsequent years. The decrease in local revenue is estimated to be \$50,000 in FY23-24 and subsequent years.
- Extending the Act to Tennessee employee-owned businesses will not result in a significant direct fiscal impact on state or local government.

IMPACT TO COMMERCE:

Decrease Business Expenditures – \$325,000/FY22-23
\$650,000/Each FY23-24 through FY27-28
\$50,000/FY28-29 and Subsequent Years

Assumptions:

- The proposed legislation will provide excise tax credits for businesses that establish ESOPs, EOTs, or convert to WOCs and will exempt such businesses from the business tax. Such tax credits and exemptions will decrease business expenditures.
- Based on the fiscal analysis above the total decreases in business expenditures are estimated to be \$325,000 in FY22-23 (\$275,000 + \$50,000), \$650,000 in each FY23-24 through FY27-28 (\$600,000 + \$50,000), and \$50,000 in FY28-29 and subsequent years.
- Any impact on the total number of jobs in this state is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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