



News from the Minnesota/Dakotas Chapter of the **ESOP** Association

Employee Ownership Moves America

Do You have Plans This August?

Each year we visit our representatives in DC and tell them our stories about being part of employee-owned companies. Let us take the next step in making our stories impactful by inviting our representatives to visit and see an employee-owned company first hand!

The members of the House will be home in Minnesota and the Dakotas this August. During that month, they want to meet with the people they represent. Please consider extending an invitation to your representative to visit your company.

If you would like help with connecting with your representative's office please contact the Government Relations Committee or Sue Crockett. We are here to help!

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Impactful Legislative Meetings at Annual ESOP Conference

Our MN/DAK Chapter had a strong turnout at the annual ESOP conference in Washington DC on May 23th – 25th. Many of the attendees were able to assist the Government Relations Committee with making our meetings with representatives personal and impactful. We were able to meet with the offices of 14 out of 16 congressional representatives for Minnesota and the Dakotas.

We were pleased to extend our appreciation and thanks to the representatives who have consistently supported ESOPs during their time in office:
Representatives: Erik Paulsen,



Tim Walz, Tom Emmer, Kristi Noem, Kevin Cramer, and Senators Amy Klobuchar, John Thune, John Hoeven, and Heidi Heitkamp.

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ESOP Legislation Update

S. 1589 – Promotion & Expansion of Private Employee Ownership Act of 2017

The Senate 1589 Promotion & Expansion of Private Employee Ownership Act bill would encourage the formation of new ESOPs by giving S corporation shareholders a tax incentive to sell their equity stake to an ESOP instead of a third-party buyer. It would also establish an office within the Department of Treasury to provide education, outreach, and technical assistance to those interested in establishing an S corporation ESOP. Finally, it would modify Small Business Administration rules such that ESOP ownership would no longer disqualify some small businesses from participating in SBA programs.

H.R. 2092 – Promotion & Expansion of Private Employee Ownership Act

The House 2092 Promotion & Expansion of Private Employee Ownership Act bill includes the same provisions as S. 1589, plus one additional provision allowing banks that finance ESOP transactions to deduct 50% of the interest income from those loans. The deduction would be allowed only if the ESOP owns a controlling interest in the employer after the transaction.

This bill and its companion in the Senate S. 1589 are not expected to move further along in the process to become law at this time. If this happens, the process will start anew with the new congress of 2019-2020 where all pending bills are wiped clean and will have to re-introduced.

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Impactful Legislative Meetings

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We were also able to continue our conversations about ESOPs with the representatives who remain uncommitted in support of ESOPs.

THANK YOU EVERYONE FOR MAKING THIS YEAR IN DC IMPACTFUL!



ESOP Legislation Update

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S. 2786 & H.R. 5236 – Main Street Employee Ownership Act of 2018

The Main Street Employee Ownership Act has been included in the Senate’s National Defense Authorization Act (NDAA), which passed in the Senate & House in June. It would be the first pro-ESOP bill to become law in 21 years. The next step for the bill is the conference committee to reconcile the House and Senate

versions of the NDAA, which is expected in late summer or early fall, following which the bill would proceed to the President to be signed into law.

The bill would focus on increasing the lending and outreach efforts of the Small Business Administration (SBA) to support ESOPs and worker cooperatives by:

- Updating the SBA’s lending practices to better serve employee-owned businesses

- Empowering the SBA to assist small business owners in converting their companies to employee ownership through outreach and training programs
- Directing the SBA to coordinate with funds licensed as SBA Small Business Investment Companies and its Microloan program to consider employee ownership as an area for investment and lending

The next step for the bill is the conference committee to reconcile the House and Senate versions of the NDAA, which is expected in late summer or early fall, following which the bill would proceed to the President to be signed into law.

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Minnesota Dakotas Chapter of the ESOP Association

Legislative Handout

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Employee Stock Ownership Plans:

Investing in Minnesota and Dakota's Employees and Small Businesses

ESOP Overview

ESOPs are qualified retirement plans invested primarily in the employer's stock – forming a team of employee owners motivated to build a successful company and create more jobs. The Minnesota/Dakotas Chapter members generally work for small businesses of 1,000 employees or less. Their stock is not publicly traded. The great majority of our members' ESOPs are 100% funded by employer contributions. When employees retire, or leave the company for other reasons, the company converts their shares to cash at fair market value, which is determined by an independent appraiser.

ESOPs Benefit Employees

- ESOPs provide the opportunity to own a piece of the company – “shared capitalism” – something difficult for employees to accomplish otherwise.
- Jobs are less likely to be eliminated and are more likely to remain in the community when a company owner sells stock to an ESOP rather than a third-party buyer.
- Over the 20 years from 1994 to 2013, DOL data shows ESOPs provided a greater average rate of return than 401(k) plans (8.1% vs. 7.1%), and with slightly less volatility. ESOPs outperformed 401(k) plans in 15 of those 20 years, including every year when 401(k) plans had negative average returns.
- ESOPs reward employees with a benefit tied directly to company performance.
- Appraisal reports delivered to ESOP companies in 2009 and 2010 suggest that ESOP investments in employer stock, on average, outperformed the stock market during the Great Recession.
- Research indicates that ESOP implementation results in more information sharing, increased communications, and involvement in decision-making for employee owners.

ESOPs Create Retirement Funds

- An ESOP can create a retirement fund for employees who previously may have had none.
- Employer-funded ESOP benefits can supplement an employee's 401(k) savings.
- ESOP benefits may be rolled into an IRA to the same extent as 401(k) benefits, unlike other forms of equity-based compensation.

What Is an ESOP?

The Benefits of Selling to an ESOP

An ESOP can use pretax future corporate earnings to buy shares from an owner.

Sellers can defer taxation on the gain depending on the type of corporation.

The business will also receive numerous tax benefits depending on the type of corporation.



Sell the business at once or gradually in installments.

Sellers can define their role in the company moving forward.



Protects jobs.

Provides employees with a significant retirement benefit.

Protects the integrity of the business by assuring that it will not be dismantled.



Financial Benefits
Flexibility
Rewarding Employees

Employee stock ownership plans, or ESOPs, are a way to sell a business that benefits the company, employees, and the selling business owners. Business owners sell some or all of their shares to an ESOP trust, which owns those shares on behalf of employees.



ESOPs can be funded in many ways, but usually the transaction involves a loan. The company can take out a loan and then reloan the funds to the ESOP trust. The company makes contributions to the trust, which the trust uses to repay the loan. Sometimes the person selling the shares provides the loan. Almost all ESOPs are completely company-funded. Employees pay nothing.



As the loan is repaid, shares become available to allocate to employee accounts. The allocations must be made on a non-discriminatory basis, like payscale or a more level formula. With limited exceptions, all employees participate in the plan.



The company administers the plan in accordance with federal laws and regulations that govern issues such as contribution and allocation limits, vesting, benefit distributions, diversification, and more.



ESOP companies often have ownership cultures that encourage employees to “think and act like owners.” Research shows such companies are more productive, faster growing, more profitable, have less turnover, and generate more wealth.



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Companies Reap the Benefits of ESOPs

- Studies show that when ESOP benefits are effectively communicated to employees, higher productivity and improved employee engagement can result – decreasing workers' compensation rates and increasing profitability.
- An ESOP can improve a company's cash flow if the plan sponsor contributes company shares, rather than cash to the plan.
- An ESOP can facilitate a gradual implementation of management succession.
- An ESOP can be a valuable tool for corporate finance, raising capital for job-creating expansion and investments in equipment.

By the Numbers . . .

- 12% The average employer contribution made by ESOP Association members to their ESOP in 2015 as a percentage of covered compensation.
- \$113,000 The average participant ESOP account balance reported by member in 2015.
- 90% Members offering a second retirement plan in addition to the ESOP, such as a 401(k) plan, pension plan, or profit sharing plan.
- 83% Members reporting that motivation and productivity increased as a result of the ESOP.
- 93% Respondents in a recent survey who said that creating an ESOP was a "good decision that has helped the company."
- 89% Respondents who said their ESOP-held company stock outperformed the three major stock indices in 2008.
- 99% Members that are private, closely-held companies.
- 82% Members proudly advertising the fact that they are employee owned.
- 68% Members that have fewer than 250 employees.
- 83% Members that are more than 50% owned by the ESOP.
- 65% Members reporting that their ESOPs have been in place for 10 years or more.

The ESOP Association

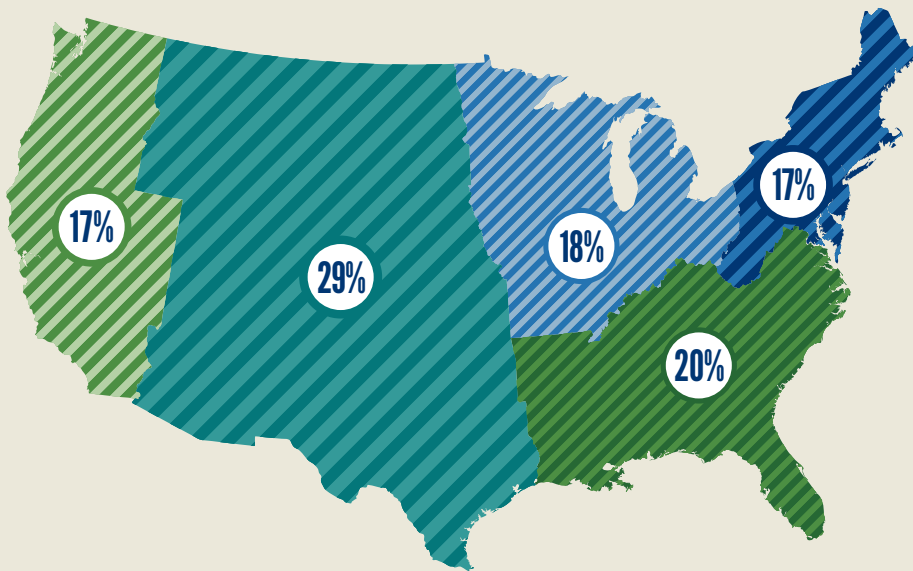
The ESOP Association is America's largest employer-sponsored advocacy and education association focused on employee stock ownership plans. Founded in 1978, the Association seeks to enhance federal laws governing ESOPs, provide members with expert information, and fund research via the Employee Ownership Foundation (an affiliate).

The ESOP Association is a national non-profit organization with 18 local Chapters. Its members include ESOP companies, companies considering an ESOP, and service providers that assist in setting up and maintaining ESOPs.

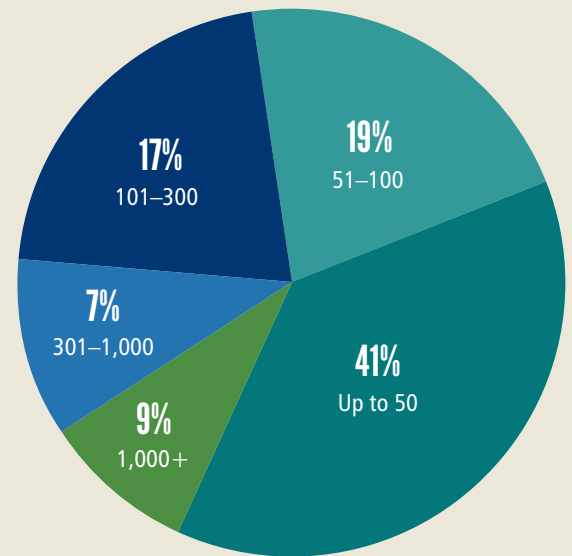
ESOPs in the U.S.

Currently, there are about 6,941 ESOPs covering roughly 13.5 million U.S. employees. ESOP companies are diverse: there are ESOPs in almost every industry, ranging in company size from just a few employees to over 250,000, spread throughout the nation.

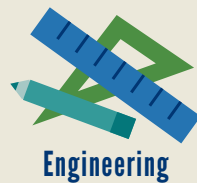
Geography of ESOPs



Number of Participants



Most Common Industries



A Brief History of Employee Ownership

Year	1956	1974	1996	2014
Event	Peninsula Newspapers establishes first ESOP.	Federal government creates statutory framework for ESOPs.	Congress passes legislation allowing ESOPs to own S corporations.	Today, there are roughly 13.5 million ESOP participants.
# of ESOPs	1 ESOP	200 ESOPs	6,680 ESOPs	6,941 ESOPs
Participants	Under 200	250,000	6.3 million	13.5 million

The Economic Power of Employee Ownership

Employee ownership keeps businesses and jobs in state.

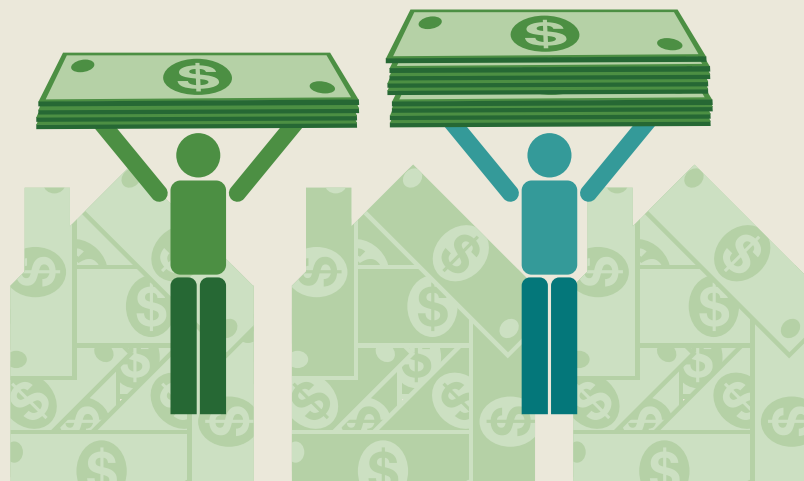


Employee ownership builds community wealth.

Employees at ESOP companies have **2.5x greater** retirement accounts.

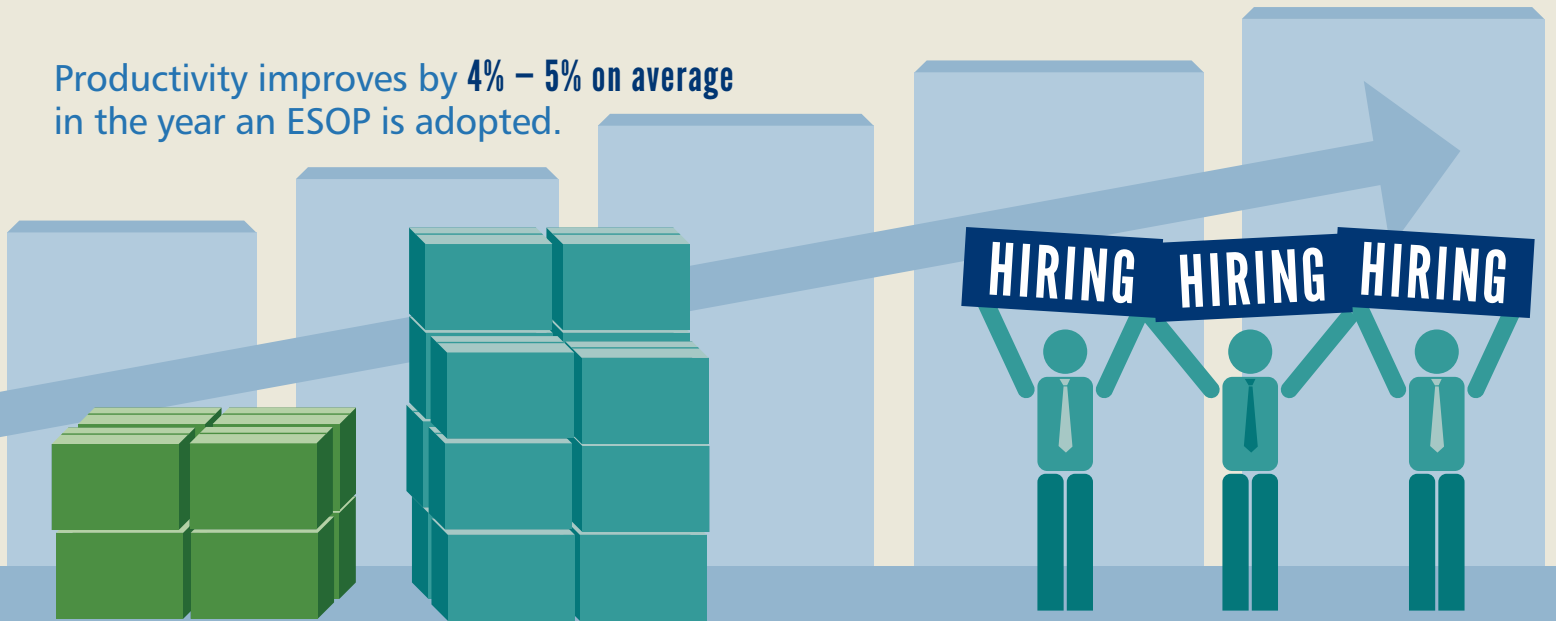


Employees at ESOP companies receive **5% – 12% more** in wages.



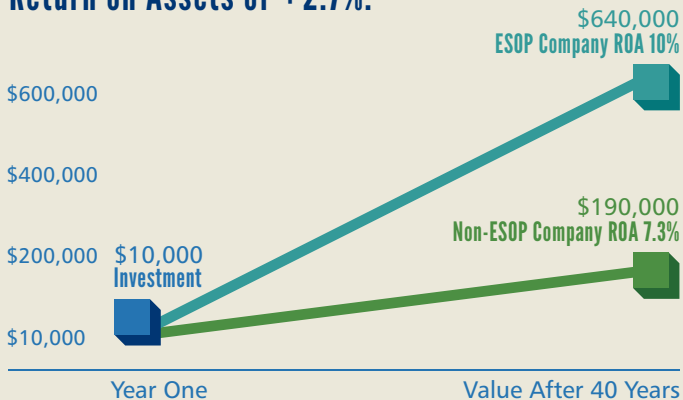
Employee ownership improves business performance.

Productivity improves by **4% – 5% on average** in the year an ESOP is adopted.



Over a 10-year period, ESOP companies have **25% higher job growth** than comparable companies without an ESOP.

ESOP companies see average yearly post-ESOP improvement in **Return on Assets of +2.7%**.



ESOP companies increased sales by about **2.3% – 2.4% per year**.



Summary of House Bill 2096 Promotion and Expansion of Private Employee Ownership Act of 2015

On April 29, 2015, eight members of the U.S. House of Representatives introduced H.R. 2096, the “Promotion and Expansion of Private Employee Ownership Act of 2015.” The lead sponsor of the bill, Rep. David G. Reichert (R-WA-8) and the seven co-sponsors are all members of the House Ways & Means Committee, which has jurisdiction over all ESOP tax laws.

The original co-sponsors of H.R. 2096 are: Representatives Ron Kind (D-WI-3), Patrick J. Tiberi (R-OH-12), Richard E. Neal (D-MA-1), Erik Paulsen (R-MN-3), Earl Blumenauer (D-OR-3), Charles W. Boustany, Jr. (R-LA-3), and Bill Pascrell, Jr. (D-NJ-9). Since the introduction of the bill, the number of co-sponsors has grown to 67.

Summary of H.R. 2096’s substantive provisions:

1. Would extend the gain deferral provisions of Internal Revenue Code Section 1042 to sales of S corporation employer stock to ESOPs. Section 1042 permits sellers of C corporation stock to defer paying capital gains on the sale proceeds if, and only if, the ESOP owns 30% of the company stock after the transaction, and the seller reinvests the proceeds in the securities of other U.S. operating corporations. When disposing of the securities acquired with proceeds from the sale to the ESOP, the sellers pay the capital gains tax on their gain based on their basis in the shares sold to the ESOP.
2. Would allow banks to deduct 50% of the interest received with respect to loans made to finance the purchase of an S corporation’s stock by an ESOP, provided that the ESOP owns more than 50% of the corporation’s stock after the acquisition.
3. Would mandate the establishment of an “S Corporation Employee Ownership Assistance Office” by the Secretary of the Treasury to foster increased employee ownership of S corporations. The S Corporation Employee Ownership Assistance Office would be required to provide education and outreach to inform people about the possibilities and benefits of employee ownership of S corporations and would provide technical assistance for companies that may be interested in forming an S corporation ESOP. The Department of Treasury would be required to establish the S Corporation Employee Ownership Assistance Office within 90 days after the date of enactment of the bill.
4. Would permit an SBA-certified small business – C or S corporation – that is eligible for SBA loan, preference or other programs to maintain its eligibility after becoming majority-owned by an ESOP, by treating employees as the direct owners of their proportionate share of the stock owned by the ESOP. Since the passage of ERISA in 1974, SBA has taken the unfair position that when a small business eligible for certain programs becomes majority owned by an ESOP, it is no longer eligible for SBA 8(a) preference programs, even though the workforce remains the same or nearly the same. Such a position has had unfair results. For example, a minority-owned, SBA-eligible company with a 100% minority workforce is no longer deemed to be so after its ESOP acquires majority ownership.

H.R. 2096 is a modest proposal that will not cost any significant tax revenues, and will build even larger account balances for retired employee-owners, who will pay more taxes on their ESOP distributions than the targeted tax expenditure. More ESOPs will be created, certain existing ESOP small businesses will qualify for SBA preference treatment for contracts and loans, and all S ESOP private companies will be able to access Treasury experts on the complex rules governing S ESOPs.



Summary of Senate Bill 1212 Promotion and Expansion of Private Employee Ownership Act of 2015

Senator Benjamin Cardin (D-MD) introduced this bill on May 6, 2015. The original co-sponsors were Senators Pat Roberts (R-KS), Sheldon Whitehouse (D-RI), Mike Crapo (R-ID), John Thune (R-SD), Al Franken (D-MN), Debbie Stabenow (D-MI), Heidi Heitkamp (D-ND), Patrick Leahy (D-VT), Roy Blunt (R-MO), James Risch (R-ID), Kelly Ayotte (R-NH), Susan Collins (R-ME) and Amy Klobuchar (D-MN). Senator Cardin now has 29 co-sponsors for his bill.

Summary of the bill's substantive provisions:

1. Would extend the gain deferral provisions of Internal Revenue Code Section 1042 to sales of S corporation employer stock to ESOPs. Section 1042 permits sellers of C corporation stock to defer paying capital gains on the sale proceeds if the ESOP owns 30% of the company stock after the transaction and the seller reinvests the proceeds in the securities of other U.S. operating corporations. When disposing of the securities acquired with proceeds from the sale to the ESOP, the seller pays the capital gains tax on the realized gain, based on the seller's basis in the shares sold to the ESOP.
2. Would mandate the establishment of an "S Corporation Employee Ownership Assistance Office" by the Department of Treasury to foster increased employee ownership of S corporations. The S Corporation Employee Ownership Assistance Office would be required to provide education and outreach to inform companies and individuals about the possibilities and benefits of employee ownership of S corporations and would provide technical assistance for companies that may be interested in forming an S corporation ESOP. The Department of Treasury would be required to establish the S Corporation Employee Ownership Assistance Office within 90 days after the date of enactment of the bill.
3. Would permit an SBA-certified small business – C or S corporation – that is eligible for an SBA loan, preference or other program to maintain its eligibility after becoming majority-owned by an ESOP, provided that the company would still qualify as a small business concern if each ESOP participant were treated as directly owning his or her proportionate share of the ESOP stock. Since the passage of ERISA in 1974, SBA has taken the position that when a small business eligible for certain programs becomes majority owned by an ESOP, it is no longer eligible for SBA 8(a) preference programs, even though the workforce remains the same or nearly the same. Such a position has had unfair results. For example, a minority-owned, SBA-eligible company with a 100% minority workforce is no longer deemed to be so after its ESOP acquires majority ownership.

Senate Bill 1212 is a modest proposal that will not cost any significant tax revenues, and will build even larger account balances for retired employee-owners, who will pay more taxes on their ESOP distributions than the targeted tax expenditure. More ESOPs will be created, certain existing ESOP small businesses will qualify for SBA preference treatment for contracts and loans, and all S ESOP private companies will be able to access Treasury experts on the complex rules governing S ESOPs.