Rural Maryland Council

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***Susan O'Neill**, Chair* ***Charlotte Davis**, Executive Director*

POSITION STATEMENT
SENATE BILL 144 Corporations and Associations - Limited Worker Cooperative Associations - Authorization
(Maryland Limited Cooperative Association Act)
Senate Judicial Proceeding Committee
January 9, 2025

The Rural Maryland Council **SUPPORTS** Senate Bill 144- Corporations and Associations - Limited Worker Cooperative Associations - Authorization (Maryland Limited Cooperative Association Act). The bill authorizes the formation of a limited worker cooperative association.

While Maryland statute recognizes the formation of cooperatives such as electric cooperatives and housing cooperatives, it does not specifically authorize worker cooperatives. Cooperatives are often a solution to many rural challenges to make up for a lack of population density and create economies of scale. As rural Maryland's population is aging, transitioning to the next generation is of concern particularly aging business owners and farmers. As these aging owners wish to retire, converting to a worker-owned cooperative could retain needed businesses and jobs in areas desperate in need.

There are ***Seven Cooperative Principles:***

- **Voluntary and Open Membership**
- **Democratic Member Control**
- **Member Economic Participation**
- **Autonomy and Independence**
- **Education, Training and Information**
- **Cooperation among Cooperatives**
- **Concern for Community**

Worker cooperatives are value-driven businesses that put the worker and community benefits as the core of their purpose. More than half of worker cooperatives in the United States today were designed to improve low-wage jobs and build wealth in communities most directly affected by inequality, helping vulnerable workers build skills and earning potential, household income and assets.

Worker cooperatives are different from Employee Stock Ownership Plans (ESOPs) as outlined in the attached chart. An ESOP is a federally-regulated employee benefit plan that gives ownership interest to workers by allocating shares from the ESOP trust. A worker cooperative is a member-owned business entity in which worker-owners have a controlling interest, and who elect the governing body on a one-member-one-vote basis.

Three other types of employee ownership exist: Employee Ownership Trust (EOTs), which is a perpetual purpose trust that holds some or all of the shares of a company on behalf of the employees, equity compensation grants and direct ownership options through stock options or offers. 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.

The Committee voted to support this bill last year, SB 85. This legislation will support the retention and creation of jobs across the State. The Rural Maryland Council requests a favorable report of SB 144.

	ESOPs	*Worker Coops*	*EOTs*	*Equity Grants*	*Direct Ownership*
What kinds of companies typically use these plans?	Established companies with owners looking to do a partial or complete ownership transition. A minority of plans are used by companies simply to share the wealth employees help create. Companies must be C corporations, S corporations, or LLCs taxed as a C or S corporation.	Typically, smaller companies with a philosophical commitment to democratic corporate governance. Companies looking for a lower cost way to set up an employee ownership plan and/or get employee investment up front.	Companies looking to do a business transition that want to give legal protection for preserving legacy, community benefit, or social and environmental goals, or that do not want to comply with the rules and costs of an ESOP and are willing to trade off the tax benefits of ESOPs to do so. Trusts can be designed to be permanent in order to prevent a sale to another buyer.	Often used by newer companies looking to grow or by larger private companies. Most private companies using these plans intend to be sold in the medium term, but some provide liquidity through company redemptions and stay private.	Companies of various sizes and stages seeking a low-cost, gradual, flexible ownership transition. Typical goals for these plans include employee engagement and the creation or maintenance of a strong ownership culture. Companies are typically S corporations or C corporations.
Primary uses	1. To be a new owner of the business, often when the current owner wants to retire. 2. Providing incentives and rewards broadly to the workforce.	1. Starting up a new company, often with a social mission. 2. Business transitions in very small closely held companies.	1. Preserving the culture, protecting the work force, or maintaining a values-based decision-making process. 2. Business transitions in closely held companies.	1. Providing incentives and rewards to selected workers or, less often, more broadly. 2. Conserving cash in startup companies.	1. Recruiting, retaining, and incentivizing employees. 2. Providing liquidity for owners, either gradually or, in the case of a leveraged transaction, more quickly. 3. Providing a tool for a gradual & flexible ownership transition and leadership succession.
Tax benefits to owners of companies	1. Sellers can defer capital gains taxes on a sale an ESOP if the sales meets certain requirements. 2. The purchase of shares by the ESOP can be funded with pretax dollars out of future profits. Stock redemptions outside of ESOPs must be funded with after-tax dollars.	1. Sellers can defer capital gains taxes on a sale to a worker cooperative if the sale meets certain requirements. This provision is the same for ESOPs and worker cooperatives.	None	None	None for the sale. Combined with a stock donation program, capital gains tax on the donated stock is potentially eliminated. Such donations likely qualify for a deduction in the year of the donation.
Governance	The ESOP trust is the legal shareholder. The trustee is appointed by the board. The trustee votes the shares. Employees have limited voting rights.	Each cooperative member has one vote, and coop members elect the board of directors.	Companies can choose the control rights the trust exercises and whether employees have any say.	Employees generally have no role in governance as a result of the equity shares.	Shares of company stock are typically voting shares. 1 share = 1 vote. Owners elect the board of directors.
https://www.nceo.org/what-is-employee-ownership/comparison-of-forms-of-employee-ownership					

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