



COOPERATIVE DEVELOPMENT INSTITUTE
The Northeast Center for Cooperative Business

Testimony in support of LD 756 – *An Act Creating and Sustaining Jobs Through the Development of Cooperatives and Employee-owned Businesses by Providing Tax Deductions for Certain Qualified Business Activities*

By

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Senator Grohoski, Representative Cloutier, and members of the Committee, my name is Rob Brown, I am from Northport, Maine, and I am the director of Business Ownership Solutions at the Cooperative Development Institute (CDI). I am testifying in support of LD 756, An Act Creating and Sustaining Jobs Through the Development of Cooperatives and Employee-owned Businesses by Providing Tax Deductions for Certain Qualified Business Activities.

CDI supports LD 756 because it is a targeted, cost-effective strategy to preserve and grow good jobs and stable, long-standing businesses here in Maine.

CDI is a nonprofit and the USDA-designated Cooperative Business Development Center for the Northeast. In my work at CDI, I work with business owners and their employees to design and execute transitions to employee ownership as an exit plan for an owner or a growth strategy for the business. Additionally, I lead programs at the local, regional, and national level, in partnership with many public, private and nonprofit entities, to educate and advise business owners on the exit planning process and their options.

With the oldest population of any state in the country, the business ownership succession crisis, dubbed nationally as the “Silver Tsunami,” looms largest right here in Maine. The average age of business owners nationally is 50 years old, but in Maine it’s 60. According to US Census data, Maine has over 7,000 small businesses, employing over 120,000 workers, where the owner is nearing retirement age. Research shows most of those aging owners don’t understand the exit planning process or options and don’t know who to turn to for help, resulting in only about 15% of them have a documented exit plan. Fewer than 20% of business listings ever sell, and the rate of successful family transitions has declined to under 20%. Too often, the default option ends up being liquidation and closure, and the smaller and more rural the business the greater the likelihood of that outcome.

In fact, US Census data shows that business closure due to owner retirement rose from 10% to 24% of all closures nationwide between 2007-2017. Another Census survey estimates that, between 2015-2021, legacy businesses (businesses in operation for more than 15 years) went from 29% to 41% of total closures and are on track to reach 50% of business closures in the next few years.

The Small Business Administration identified 5,152 small businesses in Maine that closed from March 2022 – March 2023. If the US Census data detailed above holds as true for Maine as it does nationally, that means over 1,000 Maine businesses were closed due to owner retirement in just one year.

This data shows that the “Silver Tsunami” is already crashing on Maine’s economy and leaving unnecessary destruction, in the loss of viable businesses and the jobs they provide, in its wake.

Cooperative and employee ownership offers a hopeful alternative to the increasing and needless loss of long-standing businesses and the jobs they provide, simply because those owners don’t understand the exit planning process and options and don’t know who to turn to for help.

LD 756 efficiently and effectively addresses these threats in several ways:

1. First, it would create a capital gains tax exemption of \$750,000 on the sale of any business or farm if sold to a cooperative or employee-owned enterprise, including Employee Stock Ownership Plans (ESOPs) and worker, consumer, and producer cooperatives. This provision not only incentivizes consideration of this option, it creates negotiation room on the sale price.
2. Second, it would make interest income earned from financing these transactions tax exempt. This provision incentivizes increased seller financing and creates negotiation room to lower the interest rate of that financing.
3. Third, it would establish the Maine Employee Ownership Center to expand education and training opportunities, technical assistance, and awareness of these incentives for business owners and workers interested in pursuing employee ownership.

In the interest of time, I would encourage committee members to read the [Maine Policy Review, Volume 30, Issue 2](#), for my article detailing the extensive research on the benefits of employee ownership for businesses, workers and communities. In short, compared to similar conventionally owned businesses, employee-owned businesses are more profitable and productive, they create more jobs in the good times and lay off fewer workers in downturns, they pay higher wages and offer better benefits, they attract and retain more young workers, they invest more in workforce training, they have lower rates of bankruptcy and loan default, and their workers have far greater retirement savings and household wealth.

Those considering employee ownership for the first time often ask why public policy should preference one ownership model over others, but decades of data are crystal clear why –

employee ownership consistently creates better businesses and better jobs that have higher wages, better benefits and more wealth building than conventionally owned peer businesses.

The Mills administration, in partnership with hundreds of business, nonprofit and civic leaders, developed an ambitious ten-year Maine Economic Development Strategy. That strategy and its priorities include helping businesses grow, be more productive, create more and higher paying jobs, invest in skills training and retain and attract more young workers. As the research shows, all these priorities are advanced by promoting and supporting employee ownership transitions.

We believe that this targeted tax incentive, coupled with a program of outreach, education and technical assistance, will be enough to push many more business owners to get going on exit planning and give employee ownership the consideration it deserves. This, in turn, will decrease the likelihood of unnecessary liquidation and closure, as well as the likelihood of a sale to private equity or other strategic buyers who all too often strip local companies of their assets and ship jobs out of state.

This economic and community development strategy is not new or untested:

- 25 states have established Employee Ownership Centers, with varying levels and types of public support, to provide education, training, and technical assistance for businesses considering employee ownership.
- Iowa, Missouri, Massachusetts, Washington, Colorado and other states provide a variety of tax incentives and direct funding to support business transitions to employee ownership.

At the federal level, the IRS 1042 Rollover has been in place for over 40 years and provides a substantial tax incentive for the sale of a C Corporation to its employees through an ESOP or a worker cooperative. The original champions were President Ronald Reagan and House Speaker Tip O'Neil. However, the fact that its use is limited to C Corps, combined with the cost and complexity of utilizing it, means the vast majority of Maine businesses could never take advantage of this benefit. LD 756 provides a benefit for Maine's small business owners that would go a long way toward leveling the playing field.

Lastly, virtually the same bill, and the issues it seeks to address, has been studied and debated in multiple legislative sessions. Every time, the Taxation Committee eventually voted Unanimous Ought To Pass, the house and senate voted unanimously to pass, and there was bipartisan support in the Appropriations Committee. Maine needs to catch up to the growing consensus in states across the US that employee ownership needs to be promoted and supported.

LD 756 will go a long way toward creating and preserving jobs in our more economically distressed regions, attracting and retaining more workers in our more prosperous regions, and strengthening local ownership and control.

Without question, cooperative and employee ownership delivers material benefits to and improves the economic health of workers, families and communities. LD 756 would be a strong incentive to expand this beneficial business ownership model for many more Mainers.

Thank you for your consideration and I welcome your questions.

-**Rob Brown**, Director, Business Ownership Solutions, Cooperative Development Institute
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