

HOUSE BILL REPORT

HB 2047

As Reported by House Committee On:
Appropriations

Title: An act relating to eliminating the Washington employee ownership program.

Brief Description: Eliminating the Washington employee ownership program.

Sponsors: Representatives Richards, Parshley, Macri and Gregerson.

Brief History:

Committee Activity:

Appropriations: 4/3/25, 4/5/25 [DPS].

Brief Summary of Substitute Bill

- Eliminates the Washington Employee Ownership Program administered by the Department of Commerce, which supports efforts of businesses considering a sale to an employee ownership structure.
- Modifies the tax reporting periods in which a business may claim a business and occupation tax credit for costs related to converting a qualifying business to a worker-owned cooperative, employee ownership trust, or an employee stock ownership plan.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Ormsby, Chair; Gregerson, Vice Chair; Macri, Vice Chair; Berg, Bergquist, Callan, Cortes, Fitzgibbon, Leavitt, Lekanoff, Peterson, Pollet, Ryu, Springer, Stonier, Street, Thai and Tharinger.

Minority Report: Do not pass. Signed by 8 members: Representatives Connors, Assistant Ranking Minority Member; Penner, Assistant Ranking Minority Member; Schmick, Assistant Ranking Minority Member; Burnett, Corry, Dye, Manjarrez and Marshall.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Without recommendation. Signed by 4 members: Representatives Couture, Ranking Minority Member; Caldier, Doglio and Keaton.

Staff: Jessica Van Horne (786-7288).

Background:

Employee Ownership.

Employee ownership refers to the arrangement where no one person has the most shares or control over an organization. The most common form of employee ownership in the United States is the Employee Stock Ownership Plan (ESOP), which provides tax benefits in return for sharing ownership with employees. Other types of employee ownership include cooperatives, which are member-owned business entities in which worker-owners have a controlling interest, and employee ownership trusts, where a business is owned or partially owned by a perpetual trust from which employees may receive certain financial benefits and governance rights.

Washington Employee Ownership Program.

During the 2023 Legislative Session, the Legislature created the Washington Employee Ownership Program (Program) within the Department of Commerce (Commerce) to support efforts of businesses considering a sale to an employee ownership structure. Commerce must implement the Program through activities including, but not limited to: (1) creating a network of technical support and service providers for businesses; (2) partnering with relevant organizations to promote employee ownership benefits and succession models; (3) providing a referral service to help qualified business owners find appropriate legal, financial, and technical employee ownership resources and services; and, (4) subject to the successful award of federal funding, establishing a revolving loan program to assist existing small businesses to finance a transition to employee ownership.

The Legislature also created the Washington Employee Ownership Commission (Commission) to develop rules and guidelines for administration of the Program in consultation with the Director of Commerce, and to conduct market research to support a future application for federal funding.

The Employee Ownership Revolving Loan Program Account (Account) is a nonappropriated account created to support the Program. Expenditures may only be used for costs to implement the Program. Revenues consist of sources including, but not limited to, legislative appropriations or transfers, repayments of loans under the revolving loan program, and private contributions. No funding was appropriated or transferred into the Account in the 2023-25 fiscal biennium.

Employee Ownership Business and Occupation Tax Credit.

During the 2023 Legislative Session, the Legislature also established a business and occupation tax credit (tax credit) for certain costs related to converting a qualifying business

to a worker-owned cooperative, employee ownership trust, or an ESOP. The total amount of tax credits may not exceed \$2 million per year, and are available on a first-in-time basis. Unused tax credits may be carried over up to 12 months from the end of the tax reporting period in which the credit was earned. The tax credit was first made available beginning July 1, 2024, and can be earned for tax reporting periods starting on or before June 30, 2029. No tax credits can be claimed on returns filed for tax periods starting on or after July 1, 2030. The tax credit expires July 1, 2030.

Summary of Substitute Bill:

The Program, Commission, and Account are all eliminated effective June 30, 2025. Any residual balance of funds remaining in the Account shall be transferred by the State Treasurer to the State General Fund.

The tax credit may be earned in tax reporting periods starting on or before June 30, 2025, rather than June 30, 2029. The tax credit may not be claimed on returns filed for tax periods starting on or after July 1, 2026, rather than July 1, 2030. The tax credit expires July 1, 2026, rather than July 1, 2030.

Substitute Bill Compared to Original Bill:

The substitute bill adds provisions modifying the tax reporting periods in which the tax credit for costs to convert to an employee ownership structure may be earned or claimed. The tax credit may be earned in tax reporting periods starting on or before June 30, 2025, rather than June 30, 2029, and the tax credit may not be claimed on returns filed for tax periods starting on or after July 1, 2026, rather than July 1, 2030. The substitute bill also changes the expiration date of the tax credit from July 1, 2030, to July 1, 2026.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on June 30, 2025.

Staff Summary of Public Testimony:

(In support) None.

(Opposed) Employee ownership is a national, bipartisan movement. Encouraging employee ownership models of business creates more resilient, prosperous, and equitable

communities. These models ensure economic benefits go directly to workers, and prevent job losses and wealth inequality. Workers at co-ops and similar businesses tend to have a higher net worth and are less likely to access social safety net programs. These businesses build wealth through ownership shares and keep jobs in local communities. Washington is one of the first states to implement a program to encourage employee ownership structures, and serves as a model for other states and a national leader. While funds could be reduced for the Employee Ownership Program (EOP) at the Department of Commerce (Commerce), it is important not to repeal any of the program components. Many businesses will need these supports. Eliminating the EOP will roll back progress. There are many small businesses whose owners are reaching retirement age, which makes them perfect candidates for transitioning to an employee ownership structure. Without the EOP at Commerce, these opportunities may be lost since many businesses can't make that transition without technical assistance.

(Other) Employee ownership strengthens community. Workers at employee ownership businesses are less likely to be laid off or access unemployment benefits. Employee ownership also keeps businesses local. The EOP at Commerce is supporting businesses and helping more to transition to this model. The EOP had strong bipartisan support when it was first established.

Persons Testifying: (Opposed) John McNamara, Northwest Cooperative Development Center; Shevanthi Daniel, Democracy at Work Institute (DAWI); Patricia Kwan; Paulette LaDouceur, Capital Homecare Cooperative; Joyce Oswald, WWU Small Business Development Center; Gabriel Neuman, GSBA - Washington State LGBTQ+ Chamber of Commerce; and Evan Price, Former Business Owner Who Transitioned to Cooperative Structure.

(Other) Matthew Licina, National Center for Employee Ownership.

Persons Signed In To Testify But Not Testifying: None.