

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 2047

69th Legislature
2025 Regular Session

Passed by the House April 26, 2025
Yeas 58 Nays 40

**Speaker of the House of
Representatives**

Passed by the Senate April 26, 2025
Yeas 25 Nays 23

President of the Senate

Approved

Governor of the State of Washington

CERTIFICATE

I, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 2047** as passed by the House of Representatives and the Senate on the dates hereon set forth.

Chief Clerk

FILED

**Secretary of State
State of Washington**

SUBSTITUTE HOUSE BILL 2047

AS AMENDED BY THE SENATE

Passed Legislature - 2025 Regular Session

State of Washington

69th Legislature

2025 Regular Session

By House Appropriations (originally sponsored by Representatives Richards, Parshley, Macri, and Gregerson)

READ FIRST TIME 04/08/25.

1 AN ACT Relating to eliminating the Washington employee ownership
2 program; amending RCW 82.04.4488, 43.330.590, 43.330.592, and
3 43.330.595; and providing expiration dates.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 82.04.4488 and 2023 c 392 s 5 are each amended to
6 read as follows:

7 (1) Beginning July 1, 2024, in computing the tax imposed under
8 this chapter, a credit is allowed for costs related to converting a
9 qualifying business to a worker-owned cooperative, employee ownership
10 trust, or an employee stock ownership plan, as provided in this
11 section.

12 (2) The credit is equal to:

13 (a) Up to 50 percent of the conversion costs, not to exceed
14 \$25,000, incurred by a qualified business for converting the
15 qualified business to a worker-owned cooperative or an employee
16 ownership trust; or

17 (b) Up to 50 percent of the conversion costs, not to exceed
18 \$100,000, incurred by a qualified business for converting the
19 qualified business to an employee stock ownership plan.

20 (3)(a) Credit under this section is earned, and claimed against
21 taxes due under this chapter, for the tax reporting period in which

1 the conversion to a worker-owned cooperative, employee ownership
2 trust, or an employee stock ownership plan is complete, or subsequent
3 tax reporting periods as provided in (c) of this subsection.

4 (b) The credit must not exceed the tax otherwise due under this
5 chapter for the tax reporting period.

6 (c) Unused credit may be carried over and used in subsequent tax
7 reporting periods, except that no credit may be claimed more than 12
8 months from the end of the tax reporting period in which the credit
9 was earned.

10 (d) No refunds may be granted for credits under this section.

11 (4)(a) The total amount of credits authorized under this section
12 may not exceed an annual statewide limit of \$2,000,000.

13 (b) Credits must be authorized on a first-in-time basis.

14 (c) No credit may be earned, during any calendar year, on or
15 after the last day of the calendar month immediately following the
16 month the department has determined that \$2,000,000 in credit has
17 been earned.

18 (5)(a) The department may require persons claiming a credit under
19 this section to provide appropriate documentation, in a manner as
20 determined by the department, for the purposes of determining
21 eligibility under this section.

22 (b) Every person claiming a credit under this section must
23 preserve, for a period of five years, any documentation to
24 substantiate the amount of credit claimed.

25 (6) For the purposes of this section:

26 (a) "Conversion costs" means professional services, including
27 accounting, legal, and business advisory services, as detailed in the
28 guidelines issued by the department, for: (i) A feasibility study or
29 other preliminary assessments regarding a transition of a business to
30 an employee stock ownership plan, a worker-owned cooperative, or an
31 employee ownership trust; or (ii) the transition of a business to an
32 employee stock ownership plan, a worker-owned cooperative, or an
33 employee ownership trust.

34 (b) "Employee ownership trust" means an indirect form of employee
35 ownership in which a trust holds a controlling stake in a qualified
36 business and benefits all employees on an equal basis.

37 (c) "Employee stock ownership plan" has the same meaning as set
38 forth in 26 U.S.C. Sec. 4975(e)(7), as of July 1, 2024.

39 (d) "Qualified business" means a person subject to tax under this
40 chapter, including but not limited to a C corporation, S corporation,

1 limited liability company, partnership, limited liability
2 partnership, sole proprietorship, or other similar pass-through
3 entity, that is not owned in whole or in part by an employee
4 ownership trust, that does not have an employee stock ownership plan,
5 or that is not, in whole or in part, a worker-owned cooperative, and
6 that is approved by the department for the tax credit in this
7 section.

8 (e) "Worker-owned cooperative" has the same meaning as set forth
9 in 26 U.S.C. Sec. 1042(c)(2), as of July 1, 2024, or such subsequent
10 dates as may be provided by rule by the department, consistent with
11 the purposes of this section.

12 (7) Credits allowed under this section can be earned for tax
13 reporting periods starting on or before June 30, ((2029)) 2025. No
14 credits can be claimed on returns filed for tax periods starting on
15 or after July 1, ((2030)) 2026.

16 (8) This section expires July 1, ((2030)) 2026.

17 **Sec. 2.** RCW 43.330.590 and 2023 c 392 s 2 are each amended to
18 read as follows:

19 (1) ((The)) Subject to the availability of amounts appropriated
20 for this specific purpose, the Washington employee ownership program
21 is created to support the efforts of businesses considering a sale to
22 an employee ownership structure. The Washington employee ownership
23 program must be administered by the department and overseen by the
24 Washington employee ownership commission established in RCW
25 43.330.592.

26 (2)(a) In implementing the Washington employee ownership program,
27 the director must:

28 (i) Create a network of technical support and service providers
29 for businesses considering employee ownership structures;

30 (ii) Work with state agencies whose regulations and programs
31 affect employee-owned businesses, and businesses with the potential
32 to become employee owned, to enhance opportunities and reduce
33 barriers;

34 (iii) Partner with relevant private, nonprofit, and public
35 organizations including, but not limited to, professional and trade
36 associations, financial institutions, unions, small business
37 development centers, economic and workforce development
38 organizations, and nonprofit entities to promote employee ownership
39 benefits and succession models;

1 (iv) Develop and make available materials regarding employee
2 ownership benefits and succession models;

3 (v) Provide a referral service to help qualified business owners
4 find appropriate legal, financial, and technical employee ownership
5 resources and services;

6 (vi) Work with the department of financial institutions and
7 appropriate state, private, and nonprofit entities to shape and
8 implement guidance on lending to broad-based employee ownership
9 vehicles;

10 (vii) Create an inventory of employee-owned businesses in the
11 state including employee stock ownership plans, worker cooperatives,
12 and employee ownership trusts; and

13 (viii) Subject to the successful award of federal funding for
14 this purpose, establish a revolving loan program to assist existing
15 small businesses to finance a transition to employee ownership.

16 (b) Loans offered by the revolving loan program must be used to
17 help facilitate the purchase of an interest in an employee stock
18 ownership plan or worker-owned cooperative from the owner or owners
19 of a qualified business, provided that:

20 (i) The transaction results in the employee stock ownership plan
21 or worker cooperative holding a majority interest in the business, on
22 a fully diluted basis; and

23 (ii) If used to assist in the purchase of an interest in an
24 employee stock ownership plan, the employee stock ownership plan: (A)
25 Has appointed an independent trustee; or (B) has, as a trustee,
26 person, or entity, completed education on best practices for employee
27 stock ownership plans.

28 (c) Loans financing the sale of an interest to a worker
29 cooperative shall be extended based on repayment ability and shall
30 not require a personal or entity guarantee. In meeting the
31 requirement in (b) of this subsection, lending guidelines must be
32 established for worker cooperatives not based on any personal or
33 entity guarantees provided by the member owners or the selling
34 business owner. These guidelines may include but are not limited to
35 cash flow-based underwriting, character-based lending, and reliance
36 on business assets.

37 (d) In order to support the revolving loan program, the director
38 or the director's designee must apply for federal funding
39 opportunities that:

40 (i) Support capitalization of state revolving loan programs; and

1 (ii) Support businesses that seek to transition to employee
2 ownership.

3 (e) Amounts from the repayment of loans offered by the revolving
4 loan program must be deposited in the employee ownership revolving
5 loan program account established in RCW 43.330.595.

6 (3) The director or the director's designee may contract with
7 consultants, agents, or advisors necessary to further the purposes of
8 this section.

9 (4) ~~((By))~~ Subject to the availability of amounts appropriated
10 for this specific purpose, by December 1st each year, the department
11 must submit a report to the appropriate committees of the legislature
12 on program activities and the number of employee-owned businesses and
13 employee-owned trusts in the state, including recommendations for
14 improvement and barriers for businesses considering employee
15 ownership structures in Washington state. The first report must
16 include rules and guidelines for the administration of the program,
17 as established by the Washington employee ownership commission.

18 (5) For the purposes of this section:

19 (a) "Employee-owned business" means:

20 (i) An employee cooperative established under chapter 23.78,
21 23.86, 23.100, or 24.06 RCW that has at least 50 percent of its board
22 of directors consisting of, and elected by, its employees; or

23 (ii) An entity owned in whole or in part by employee stock
24 ownership plans as defined in 26 U.S.C. Sec. 4975(e)(7).

25 (b) "Qualified business" means a person subject to tax under
26 Title 82 RCW, including but not limited to a C corporation, S
27 corporation, limited liability company, partnership, limited
28 liability partnership, sole proprietorship, or other similar pass-
29 through entity, that is not owned in whole or in part by an employee
30 ownership trust, that does not have an employee stock ownership plan,
31 or that is not, in whole or in part, a worker-owned cooperative.

32 (6) Program support shall only be made available to businesses
33 headquartered in Washington state. For the purposes of this section,
34 "headquartered in Washington state" means that Washington state is
35 its principal place of business or the state where it is
36 incorporated.

37 (7) The director shall adopt rules as necessary to implement this
38 section.

39 (8) This section expires June 30, 2030.

1 **Sec. 3.** RCW 43.330.592 and 2023 c 392 s 3 are each amended to
2 read as follows:

3 (1) (~~The~~) Subject to the availability of amounts appropriated
4 for this specific purpose, the Washington employee ownership
5 commission is hereby created to exercise the powers in developing and
6 supervising the program created in RCW 43.330.590.

7 (2) The commission shall consist of:

8 (a) One member from each of the two major caucuses of the house
9 of representatives to be appointed by the speaker of the house and
10 one member from each of the two major caucuses of the senate to be
11 appointed by the president of the senate. The initial term shall be
12 two years; and

13 (b) The following members appointed by the governor:

14 (i) Five members who represent the private sector or professional
15 organizations as follows:

16 (A) One representative of a worker cooperative business. The
17 initial term shall be four years;

18 (B) One representative of an employee stock ownership plan
19 business. The initial term shall be four years;

20 (C) One representative from a statewide business association. The
21 initial term shall be two years;

22 (D) One economic development expert, from the private sector,
23 with employee ownership knowledge and experience. The initial term
24 shall be four years; and

25 (E) One representative from a financial institution with
26 expertise in assisting businesses transitioning into an employee
27 ownership structure. The initial term shall be two years; and

28 (ii) Two members who represent the public sector as follows:

29 (A) One economic development expert, from the public sector. The
30 initial term shall be four years; and

31 (B) One representative from the department of commerce, who will
32 chair the first meeting prior to the election of the chair. The
33 initial term shall be four years.

34 (3) After the initial term of appointment, all members shall
35 serve terms of four years and shall hold office until successors are
36 appointed.

37 (4) The commission shall be led by a chair selected and voted on
38 by members of the commission. The chair shall serve a one-year term
39 but may serve more than one term if selected to do so by members of
40 the commission.

1 (5) The commission shall develop, in consultation with the
2 director, rules and guidelines to administer the program. Rules and
3 guidelines for the administration of the program must be included in
4 the first report to the legislature required in RCW 43.330.590.

5 (6) Before making any appointments to the commission, the
6 governor must seek nominations from recognized organizations that
7 represent the entities or interests identified in this section. The
8 governor must select appointees to represent private sector
9 industries from a list of three nominations provided by the trade
10 associations representing the industry, unless no names are put forth
11 by the trade associations.

12 (7) The commission shall conduct market research for the purposes
13 of, or to support, a future application to the federal government for
14 a program to assist in the purchase of an interest in an employee
15 stock ownership plan qualifying under section 401 of the internal
16 revenue code, worker cooperative, or related broad-based employee
17 ownership vehicle.

18 (8) For purposes of this section, a "professional organization"
19 includes an entity whose members are engaged in a particular lawful
20 vocation, occupation, or field of activity of a specialized nature
21 including, but not limited to, associations, boards, educational
22 institutions, and nonprofit organizations.

23 (9) This section expires June 30, 2030.

24 **Sec. 4.** RCW 43.330.595 and 2023 c 392 s 6 are each amended to
25 read as follows:

26 (1) The employee ownership revolving loan program account is
27 created in the custody of the state treasury. All transfers and
28 appropriations by the legislature, repayments of loans, private
29 contributions, and all other sources must be deposited into the
30 account. Expenditures from the account may be used only for the
31 purposes of the Washington employee ownership program created in RCW
32 43.330.590. Only the director or the director's designee may
33 authorize expenditures from the account. The account is subject to
34 allotment procedures under chapter 43.88 RCW, but an appropriation is
35 not required for expenditures.

36 (2) This section expires June 30, 2030.

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