

MAINE STATE LEGISLATURE

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STATE OF MAINE

SENATE

129TH LEGISLATURE

FIRST REGULAR SESSION

COMMITTEE AMENDMENT "A" to S.P. 469, L.D. 1520, Bill, "An Act To Create and Sustain Jobs through Development of Cooperatives and Employee-owned Businesses"

Amend the bill by striking out the title and substituting the following:

'An Act To Create and Sustain Jobs and Encourage Affordable Housing through Development of Cooperatives and Employee-owned Businesses'

Amend the bill by striking out everything after the enacting clause and inserting the following:

'Sec. 1. 5 MRSA §13062, 2nd ¶, as enacted by PL 1987, c. 534, Pt. A, §§17 and 19, is amended to read:

The Office of Business Development shall be is responsible for the implementation of a program consisting of 3 4 primary elements.

Sec. 2. 5 MRSA §13062, sub-§4 is enacted to read:

4. Encouragement of employee ownership of businesses. The office shall contract with a nonprofit economic development organization with relevant expertise to develop and manage an office, to be known as the Maine Employee Ownership Center, that shall:

A. Develop educational programs, including convening an annual conference on employee ownership issues;

B. Provide information about employee ownership and technical assistance to retiring business owners, employees of plants threatened with closure and entrepreneurs interested in creating businesses with broadly shared ownership;

C. Link Maine businesses interested in implementing employee ownership to available financial, technical and legal resources;

D. Assist firms and employee groups in performing preliminary feasibility studies to determine the initial feasibility of employee ownership and whether the business and employee group should perform a full feasibility study;

COMMITTEE AMENDMENT

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E. Help businesses interested in implementing some form of employee ownership obtain financing;

F. Promote best practices for operating employee-owned businesses;

G. Recommend legislative or executive action to promote employee ownership; and

H. Work with the Office of Program Evaluation and Government Accountability to define the scope of data collection and to collect data and other information to facilitate tax expenditure review under Title 3, chapter 37 including, but not limited to:

(1) The number of business ownership conversions to employee or cooperative ownership;

(2) The number of full-time equivalent jobs retained as a result of conversions to employee or cooperative ownership;

(3) The number of housing units converted to cooperative ownership; and

(4) Data and information regarding other measures of the fiscal impact and overall economic development in the State as the result of conversions to employee or cooperative ownership.

Sec. 3. 36 MRSA §5122, sub-§2, ¶¶QQ and RR are enacted to read:

QQ. For taxable years beginning on or after January 1, 2020, to the extent included in federal adjusted gross income and to the extent otherwise subject to Maine income tax, an amount equal to any gain recognized on the sale by the taxpayer of an ownership interest greater than 50% in a qualified business if the business was transferred to:

(1) An employee stock ownership plan as defined in the Code, Section 4975(e)(7);

(2) An S corporation organized in the State owned by an employee stock ownership plan;

(3) An eligible worker-owned cooperative as defined in the Code, Section 1042(c)(2);

(4) A consumer cooperative organized under Title 13, chapter 85, subchapter 1; or

(5) If the business provides housing, a consumer cooperative or a cooperative affordable housing corporation organized under Title 13, chapter 85, subchapter 1-A.

The deduction allowed pursuant to this paragraph may not exceed \$750,000.

For purposes of this paragraph, "qualified business" means a business whose securities are not publicly traded on any stock exchange and that is registered with the Secretary of State or whose principal place of business is within the State including a corporation, an S corporation, a limited liability company, a limited

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liability partnership, a sole proprietorship and all entities that are not publicly traded and are related by common majority ownership or control.

RR. For taxable years beginning on or after January 1, 2020, to the extent included in federal adjusted gross income and to the extent otherwise subject to Maine income tax, an amount equal to the interest received during the taxable year by the taxpayer with respect to a qualified business acquisition loan. For purposes of this paragraph:

(1) "Qualified business" means a business whose securities are not publicly traded on any stock exchange and that is registered with the Secretary of State or whose principal place of business is within the State including a corporation, an S corporation, a limited liability company, a limited liability partnership, a sole proprietorship and all entities that are not publicly traded and are related by common majority ownership or control; and

(2) "Qualified business acquisition loan," including a loan or part of a series of loans, means:

(a) A loan of which at least 90% of the proceeds are applied to the acquisition of majority equity ownership of a qualified business not owned by an entity under subdivisions (i) to (v) and that is given to:

(i) An employee stock ownership plan as defined in the Code, Section 4975(c)(7);

(ii) An S corporation organized in the State owned by an employee stock ownership plan;

(iii) An eligible worker-owned cooperative as defined in the Code, Section 1042(c)(2);

(iv) A consumer cooperative organized under Title 13, chapter 85, subchapter 1; or

(v) If the business provides housing, a consumer cooperative or a cooperative affordable housing corporation organized under Title 13, chapter 85, subchapter 1-A;

(b) A loan to a corporation that sponsors an employee stock ownership plan if all proceeds of the loan are loaned to the employee stock ownership plan to acquire for the plan all outstanding employer securities in a qualified business and the plan's repayment terms are substantially similar to the corporation's repayment terms; or

(c) A loan used to refinance a qualified business acquisition loan.

Sec. 4. 36 MRSA §5200-A, sub-§2, ¶¶FF and GG are enacted to read:

FF. For taxable years beginning on or after January 1, 2020, to the extent included in federal taxable income and to the extent otherwise subject to Maine income tax, an amount equal to any gain recognized on the sale by the taxpayer of an ownership interest greater than 50% in a qualified business if the business was transferred to:

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- 1 (1) An employee stock ownership plan as defined in the Code, Section
- 2 4975(e)(7);
- 3 (2) An S corporation organized in the State owned by an employee stock
- 4 ownership plan;
- 5 (3) An eligible worker-owned cooperative as defined in the Code, Section
- 6 1042(c)(2);
- 7 (4) A consumer cooperative organized under Title 13, chapter 85, subchapter 1;
- 8 or
- 9 (5) If the business provides housing, a consumer cooperative or a cooperative
- 10 affordable housing corporation organized under Title 13, chapter 85, subchapter
- 11 1-A.

12 The deduction allowed pursuant to this paragraph may not exceed \$750,000.

13 For purposes of this paragraph, "qualified business" means a business whose

14 securities are not publicly traded on any stock exchange and that is registered with

15 the Secretary of State or whose principal place of business is within the State

16 including a corporation, an S corporation, a limited liability company, a limited

17 liability partnership, a sole proprietorship and all entities that are not publicly traded

18 and are related by common majority ownership or control.

19 GG. For taxable years beginning on or after January 1, 2020, to the extent included

20 in federal taxable income and to the extent otherwise subject to Maine income tax, an

21 amount equal to the interest received during the taxable year by the taxpayer with

22 respect to a qualified business acquisition loan. For purposes of this paragraph:

23 (1) "Qualified business" means a business whose securities are not publicly

24 traded on any stock exchange and that is registered with the Secretary of State or

25 whose principal place of business is within the State including a corporation, an S

26 corporation, a limited liability company, a limited liability partnership, a sole

27 proprietorship and all entities that are not publicly traded and are related by

28 common majority ownership or control; and

29 (2) "Qualified business acquisition loan," including a loan or part of a series of

30 loans, means:

31 (a) A loan of which at least 90% of the proceeds are applied to the

32 acquisition of majority equity ownership of a qualified business not owned

33 by an entity under subdivisions (i) to (v) and that is given to:

34 (i) An employee stock ownership plan as defined in the Code, Section

35 4975(e)(7);

36 (ii) An S corporation organized in the State owned by an employee stock

37 ownership plan;

38 (iii) An eligible worker-owned cooperative as defined in the Code,

39 Section 1042(c)(2);

COMMITTEE AMENDMENT

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(iv) A consumer cooperative organized under Title 13, chapter 85, subchapter 1; or

(v) If the business provides housing, a consumer cooperative or a cooperative affordable housing corporation organized under Title 13, chapter 85, subchapter 1-A;

(b) A loan to a corporation that sponsors an employee stock ownership plan if all proceeds of the loan are loaned to the employee stock ownership plan to acquire for the plan all outstanding employer securities in a qualified business and the plan's repayment terms are substantially similar to the corporation's repayment terms; or

(c) A loan used to refinance a qualified business acquisition loan.

Sec. 5. 36 MRSA §5206, as repealed and replaced by PL 2005, c. 608, §1 and affected by §5, is amended by adding at the end a new paragraph to read:

For taxable years beginning on or after January 1, 2020, the taxpayer may for the purposes of the tax under this section subtract from Maine net income an amount equal to the interest received during the taxable year by the taxpayer with respect to a qualified business acquisition loan.

Sec. 6. 36 MRSA §5206-D, sub-§13, as amended by PL 1999, c. 414, §43 and affected by §57, is further amended to read:

13. Maine net income. "Maine net income" means, for any taxable year, a financial institution's net income or loss per books required to be reported pursuant to the laws of the United States on Internal Revenue Service Form 1120, 1120S, 1065 or any other Internal Revenue Service form used to report net income or loss per books or, in the case of an entity with a single owner that may be disregarded as an entity separate from its owner pursuant to Internal Revenue Service regulations, the financial institution's net income or loss per books determined as if the entity were required to file Internal Revenue Service Form 1065, adjusted in accordance with section 5206, and apportioned to this State under section 5206-E. In the case of a financial institution that is a qualified subchapter S subsidiary as defined by the Code, Section 1361, the financial institution's "Maine net income" means a financial institution's net income or loss per books determined as if the entity were required to file Internal Revenue Service Form 1120S and apportioned to this State under section 5206-E.

To the extent that a financial institution derives income from a unitary business carried on by 2 or more members of an affiliated group, "Maine net income" is determined by apportioning, in accordance with section 5206-E, that part of the net income of the entire group that derives from the unitary business.

Sec. 7. 36 MRSA §5206-D, sub-§§16-A and 16-B are enacted to read:

16-A. Qualified business. "Qualified business" means a business whose securities are not publicly traded on any stock exchange and that is registered with the Secretary of State or whose principal place of business is within the State including a corporation, an S corporation, a limited liability company, a limited liability partnership, a sole

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1 proprietorship and all entities that are not publicly traded and are related by common
2 majority ownership or control.

3 **16-B. Qualified business acquisition loan.** "Qualified business acquisition loan,"
4 including a loan or part of a series of loans, means:

5 A. A loan of which at least 90% of the proceeds are applied to the acquisition of
6 majority equity ownership of a qualified business not owned by an entity under
7 subparagraphs (1) to (5) and that is given to:

8 (1) An employee stock ownership plan as defined in the Code, Section
9 4975(e)(7);

10 (2) An S corporation organized in the State owned by an employee stock
11 ownership plan;

12 (3) An eligible worker-owned cooperative as defined in the Code, Section
13 1042(c)(2);

14 (4) A consumer cooperative organized under Title 13, chapter 85, subchapter 1;
15 or

16 (5) If the business provides housing, a consumer cooperative or a cooperative
17 affordable housing corporation organized under Title 13, chapter 85, subchapter
18 1-A;

19 B. A loan to a corporation that sponsors an employee stock ownership plan if all
20 proceeds of the loan are loaned to the employee stock ownership plan to acquire for
21 the plan all outstanding employer securities in a qualified business and the plan's
22 repayment terms are substantially similar to the corporation's repayment terms; or

23 C. A loan used to refinance a qualified business acquisition loan.

24 **Sec. 8. Evaluation; specific public policy objective; performance**
25 **measures.** The deductions provided under this Act are subject to ongoing legislative
26 review in accordance with the Maine Revised Statutes, Title 3, chapter 37. The Office of
27 Program Evaluation and Government Accountability shall include review of deductions
28 provided under this Act in its regular schedule of tax expenditure reviews. In developing
29 evaluation parameters to perform the evaluation, the Office of Program Evaluation and
30 Government Accountability, the Government Oversight Committee and the joint standing
31 committee of the Legislature having jurisdiction over taxation matters shall consider:

32 **1. Policy objective.** That the specific public policy objective of the deductions
33 provided under this Act is to preserve and expand units of affordable housing in
34 manufactured housing parks and apartment buildings and retain jobs in qualifying
35 businesses that would otherwise cease operations by reducing the tax impact to business
36 owners from qualifying sales of ownership interests in order to encourage conversion of
37 businesses to employee and cooperative ownership and thereby allow the businesses to
38 continue operations and retain jobs; and

39 **2. Performance measures.** Performance measures, including, but not limited to:

40 A. The number of qualifying business ownership conversions to employee or
41 cooperative ownership;

ROFS

COMMITTEE AMENDMENT "A" to S.P. 469, L.D. 1520 (S-260)

- 1 B. The number of full-time equivalent jobs retained and units of affordable housing
- 2 created or retained;
- 3 C. The number of housing units converted to cooperative housing; and
- 4 D. Measures of fiscal impact and overall economic impact to the State.

5 **Sec. 9. Appropriations and allocations.** The following appropriations and
6 allocations are made.

7 **ADMINISTRATIVE AND FINANCIAL SERVICES, DEPARTMENT OF**
8 **Revenue Services, Bureau of 0002**

9 Initiative: Provides one-time funding for computer programming to update income tax
10 filing forms.

11	GENERAL FUND	2019-20	2020-21
12	All Other	\$77,000	\$0
13			
14	GENERAL FUND TOTAL	<u>\$77,000</u>	<u>\$0</u>

15	ADMINISTRATIVE AND FINANCIAL		
16	SERVICES, DEPARTMENT OF		
17	DEPARTMENT TOTALS	2019-20	2020-21
18			
19	GENERAL FUND	\$77,000	\$0
20			
21	DEPARTMENT TOTAL - ALL FUNDS	<u>\$77,000</u>	<u>\$0</u>

22 **ECONOMIC AND COMMUNITY DEVELOPMENT, DEPARTMENT OF**
23 **Business Development 0585**

24 Initiative: Provides funds to contract with a nonprofit economic development
25 organization to develop and manage the Maine Employee Ownership Center.

26	GENERAL FUND	2019-20	2020-21
27	All Other	\$100,000	\$50,000
28			
29	GENERAL FUND TOTAL	<u>\$100,000</u>	<u>\$50,000</u>

30	ECONOMIC AND COMMUNITY		
31	DEVELOPMENT, DEPARTMENT OF		
32	DEPARTMENT TOTALS	2019-20	2020-21
33			

COMMITTEE AMENDMENT

R.O.F.S

COMMITTEE AMENDMENT "A" to S.P. 469, L.D. 1520 (S.260)

1	GENERAL FUND	\$100,000	\$50,000
2			
3	DEPARTMENT TOTAL - ALL FUNDS	\$100,000	\$50,000
4	SECTION TOTALS	2019-20	2020-21
5			
6	GENERAL FUND	\$177,000	\$50,000
7			
8	SECTION TOTAL - ALL FUNDS	\$177,000	\$50,000
9			

10 Amend the bill by relettering or renumbering any nonconsecutive Part letter or
11 section number to read consecutively.

12 **SUMMARY**

13 This amendment requires the Department of Economic and Community
14 Development, Office of Business Development to contract with a nonprofit development
15 organization with relevant expertise to develop and manage the Maine Employee
16 Ownership Center to provide information and programs to assist businesses in the
17 transition to employee or cooperative ownership, rather than requiring the office to
18 provide those services. The amendment removes requirements that the Department of
19 Administrative and Financial Services, Maine Revenue Services collect specified data
20 and report annually to the Office of Program Evaluation and Government Accountability
21 and that the Maine Public Employees Retirement System study investment of funds in
22 employee-owned businesses. The amendment also makes changes to facilitate the
23 administration and evaluation of the deductions provided in the bill. The amendment also
24 adds an appropriations and allocations section.

25 **FISCAL NOTE REQUIRED**

26 **(See attached)**

COMMITTEE AMENDMENT



129th MAINE LEGISLATURE

LD 1520

LR 1028(02)

An Act To Create and Sustain Jobs through Development of Cooperatives and Employee-owned Businesses

Fiscal Note for Bill as Amended by Committee Amendment "A" (S-260)

Committee: Taxation

Fiscal Note Required: Yes

Fiscal Note

	FY 2019-20	FY 2020-21	Projections FY 2021-22	Projections FY 2022-23
Net Cost (Savings)				
General Fund	\$177,000	\$197,250	\$206,750	\$211,500
Appropriations/Allocations				
General Fund	\$177,000	\$50,000	\$50,000	\$50,000
Revenue				
General Fund	\$0	(\$147,250)	(\$156,750)	(\$161,500)
Other Special Revenue Funds	\$0	(\$7,750)	(\$8,250)	(\$8,500)

Fiscal Detail and Notes

The bill creates an income tax exclusion for employee stock ownership plans, eligible worker-owned cooperatives, consumer cooperatives and affordable housing cooperatives. It would result in a reduction in General Fund revenue of \$147,250 in fiscal year 2020-21 and a reduction in Local Government Fund revenue of \$7,750 in fiscal year 2020-21. The bill includes a one-time General Fund appropriation of \$77,000 in fiscal year 2019-20 to the Department of Administrative and Financial Services for computer programming to update income tax filing forms.

This bill also includes ongoing General Fund appropriations of \$100,000 in fiscal year 2019-20 and \$50,000 per year beginning in fiscal year 2020-21 to the Business Development program within the Department of Economic and Community Development to contract with a nonprofit economic development organization to develop and manage a Maine Employee Ownership Center to assist businesses in the transition to employee or cooperative ownership.