# The ESOP Association

Serving the Entire ESOP Community



April 29, 2019

The Honorable Arnie Roblan, Co-Chair
The Honorable Barbara Smith Warner, Co-Chair
Joint Committee on Student Success
900 Court St NE
Salem, OR 97301

**RE: HB 3427-1: Student Success Act**

Dear Co-Chair Roblan, Co-Chair Smith Warner, and members of the committee:

Thank you for your opportunity to comment on HB 3427-1, the Student Success Act.

On behalf of The ESOP Association I respectfully request that the Committee reconsider the inclusion of Sub-chapter S corporations in the proposed gross receipts tax framework. A Sub-chapter S corporation is a business entity that provides flow-through tax treatment to its shareholders. An employee stock ownership plan ("ESOP") is a qualified defined contribution plan that provides a company's workers with retirement savings through their investments in their employer's stock, at no cost to the worker. ESOPs operating in Oregon give workers the opportunity to have equity in the companies where they work.

ESOPs are regulated by the Employee Retirement Income Security Act ("ERISA") just like pension funds, 401(k) plans, and other qualified retirement plans. Congress authorized the S corporation ESOP structure to encourage and expand retirement savings for hundreds of thousands of American workers. At the Federal level, ESOPs are not levied an income tax at the corporate level. Instead, profits flow into the retirement accounts of employee owners. Upon retirement, the employee owners pay personal income tax to the Federal Government (and state income tax to Oregon) once retirement shares are bought back by the ESOP.

The Federal Government sees ESOPs as a tax deferral structure that exists to encourage retirement savings. **We ask that Oregon would also move in this direction.**

**The ESOP Association** • 1200 18th Street, NW • Suite 1125 • Washington, D.C. 20036-2506 • **Phone**: (202) 293-2971
**Fax**: (202) 293-7568 • **E-mail**: esop@esopassociation.org • **Website**: esopassociation.org

While nearly 46 percent of working Americans do not have access to an employer-sponsored retirement savings plan, all S corporation ESOP participants do have a plan, and that plan is wholly funded by their companies. More than 55 percent of Americans over the age of 55 have no retirement savings. Furthermore, data proves that S ESOPs are more than just powerful saving vehicles, they are economic drivers.

ESOPs accounted for $246 billion in direct and indirect economic output in 2010. In 2008, during the trough of the recession, ESOP employment grew by 2 percent, while overall private sector employment shrank by 3 percent. Aligning the goals of the employees and the company helps boost performance – there is a 4 percent gain in productivity associated with switching to an ESOP.

We believe that providing an exemption for S corporations from the proposed gross receipts tax would help meet Oregon's goals for long-term economic stability for all Oregonians.

Sincerely,

James J. Bonham
President & CEO