

EMPLOYEE-OWNED FIRMS: BENEFITS AND CONTEMPORARY PUBLIC POLICY

AN EMPLOYEE-OWNED FIRM IS A BUSINESS OWNED BY ITS WORKERS.

THERE ARE VARIOUS EMPLOYEE OWNERSHIP STRUCTURES:

DIRECT OWNERSHIP
WORKER CO-OPERATIVE
 WORKER SHAREHOLDER CO-OPERATIVE
 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

VS

INDIRECT OWNERSHIP
EMPLOYEE OWNERSHIP TRUST (EOT)

 = CONTROLLING-INTEREST (>50% OWNERSHIP) OF FIRM REQUIRED

ON AVERAGE, EMPLOYEE-OWNED FIRMS PROVIDE NUMEROUS BENEFITS AND ADVANTAGES RELATIVE TO CONVENTIONAL FIRMS

THESE BENEFITS AND ADVANTAGES OFTEN INCLUDE, BUT ARE NOT LIMITED TO:

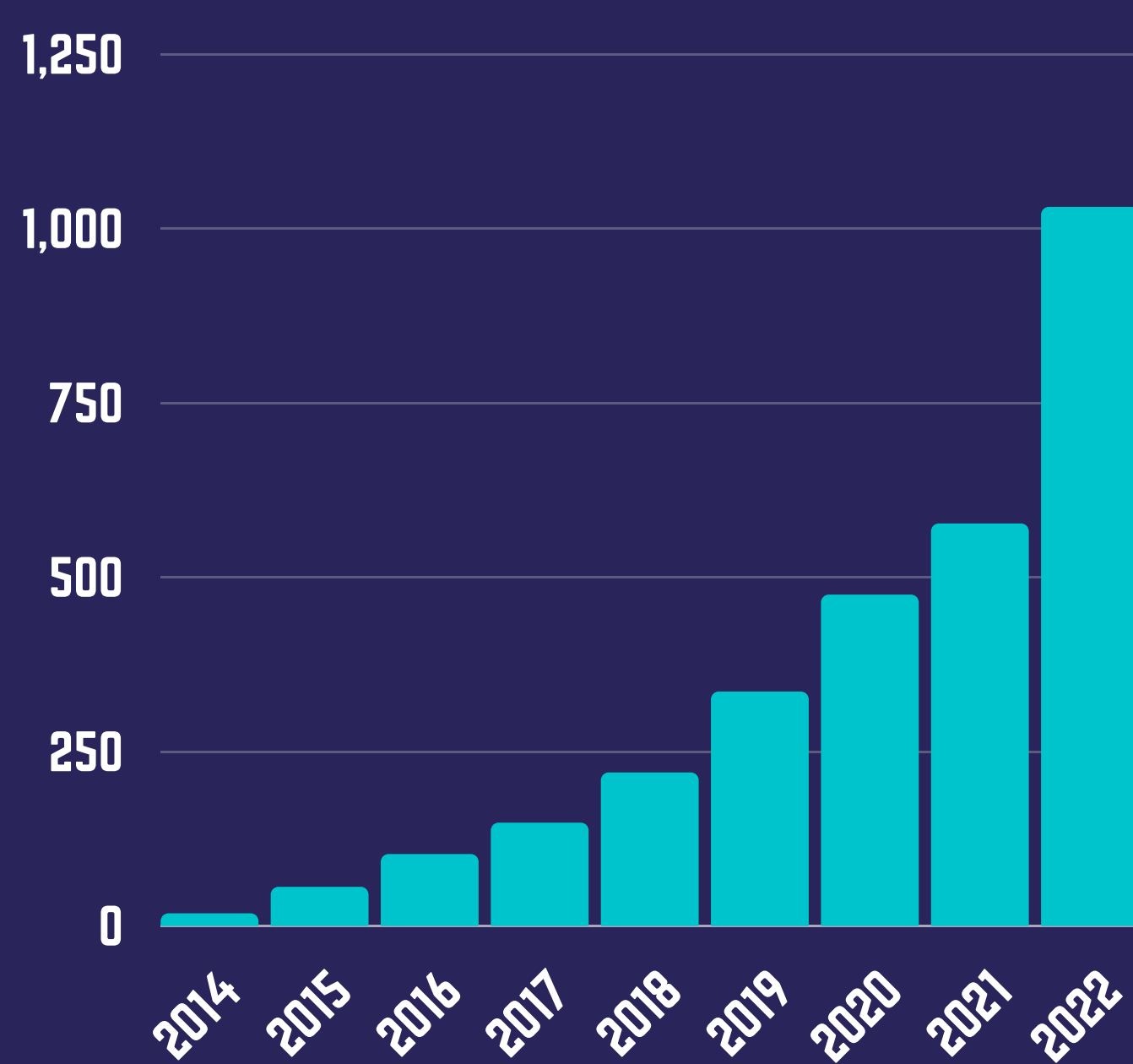
- GREATER PRODUCTIVITY
- GREATER FIRM SURVIVAL STATISTICS
- EQUITY AND RESILIENCE IN TIMES OF ECONOMIC DOWNTURN
- INCREASED DEMOCRACY IN THE WORKPLACE
- BETTER PAY AND LESS INCOME INEQUALITY
- KEEPING JOBS AND PROFITS WITHIN A COMMUNITY
- GOALS BEYOND PROFIT (WORKFORCE WELL-BEING, SOCIETAL PURPOSE, SUSTAINABILITY)
- OPERATING IN UNDERSERVED COMMUNITIES
- ACTING AS 'MARKET WATCHDOGS'

NOTE. THESE ARE GENERAL TENDENCIES COMPILED FROM, AND UNEQUALLY PRESENT WITHIN, VARIOUS EMPLOYEE OWNERSHIP STRUCTURES.

DESPITE THEIR ADVANTAGES AND BENEFITS RELATIVE TO CONVENTIONAL FIRMS, EMPLOYEE-OWNED FIRMS HAVE FAILED TO OCCUPY A SIGNIFICANT PORTION OF THE PRIVATE SECTOR

HOWEVER, IN 2014 THE UNITED KINGDOM INTRODUCED A CAPITAL GAINS TAX (CGT) EXEMPTION FOR BUSINESS OWNERS WHO SELL TO AN EMPLOYEE OWNERSHIP TRUST. SINCE THE INTRODUCTION OF THE CGT EXEMPTION, EOTS HAS GROWN REMARKABLY.

CUMULATIVE EOTS IN THE UK (2014-2022)



THE SIMPLICITY OF EOTS, AND THEIR SUCCESS IN THE UNITED KINGDOM, INDICATES THEY ARE THE FUTURE OF EMPLOYEE OWNERSHIP. MOREOVER, THE UK'S CGT EXEMPTION HAS SHOWN THAT A GOVERNMENT-PROVIDED FINANCIAL INCENTIVE IS A VERY EFFECTIVE WAY TO INCREASE EMPLOYEE OWNERSHIP.

A NOT-FOR-PROFIT ORGANIZATION CALLED THE CANADIAN EMPLOYEE OWNERSHIP COALITION (CEOC) WAS LAUNCHED IN JANUARY 2023. THE CEOC IS CALLING ON OTTAWA TO ADOPT THE UK'S CGT EXEMPTION.

STARTING JANUARY 2024, EOTS WILL BE ENABLED BY CANADA'S INCOME TAX ACT. HOWEVER, THERE ARE NO GENEROUS TAX INCENTIVES FOR BUSINESS OWNERS TO SELL THEIR FIRM TO AN EOT. AS A RESULT, EOTS LIKELY WILL NOT TAKE OFF IN CANADA THE SAME WAY THEY HAVE IN THE UK. THAT SAID, RUSHING TO COPY THE UK'S POLICY MAY BE UNWISE.

THE ANNUAL COST OF THE UK'S CGT EXEMPTION IS ESSENTIALLY UNKNOWN.

IT IS ESTIMATED THAT IN THE 2019-2020 FISCAL YEAR, THE TAX BREAK COST £130 MILLION. HOWEVER, THAT FIGURE RECEIVED A 'HIGH' UNCERTAINTY RATING FROM HM REVENUE AND CUSTOMS; 'HIGH' UNCERTAINTY IS CHARACTERIZED BY "VERY LITTLE, INCOMPLETE OR POOR QUALITY DATA. LARGELY ASSUMPTION-BASED AND DIFFICULT TO VERIFY." MOREOVER, BECAUSE THE FISCAL YEAR DOES NOT ALIGN WITH THE CALENDAR YEAR, THE NUMBER OF EOTS CREATED DURING THIS TIME IS UNKNOWN, ALTHOUGH IT CANNOT BE MORE THAN 255.

SOCIAL CAPITAL PARTNERS (A TORONTO-BASED NONPROFIT) ESTIMATED THAT, FOLLOWING THE IMPLEMENTATION OF A CGT EXEMPTION, CANADA COULD SEE 505-757 EOTS CREATED WITHIN THE FIRST EIGHT YEARS. IN ADDITION, SOCIAL CAPITAL PARTNERS NOTED MANY FACTORS, SUCH AS AGE DEMOGRAPHICS AND FIRM SIZES, WHICH COULD INCREASE EOT UPTAKE.

DETERMINING TO WHAT DEGREE THE GOVERNMENT SHOULD INCENTIVIZE EMPLOYEE OWNERSHIP IS A TRICKY BALANCING ACT. ON ONE HAND, THE GOVERNMENT COULD FOLLOW THE UK'S LEAD AND SEE RAPID GROWTH OF THE BUSINESS STRUCTURE, BUT AT WHAT FINANCIAL COST? ON THE OTHER HAND, IF THE GOVERNMENT IS TOO RESERVED WITH ITS INCENTIVES EMPLOYEE OWNERSHIP IN CANADA COULD FAIL TO TAKE OFF.

IN LIGHT OF THE PRESENT DILEMMA, HERE ARE TWO ALTERNATIVE POLICY ROUTES THE CANADIAN GOVERNMENT COULD CONSIDER. EACH ROUTE AIMS TO SIGNIFICANTLY INCREASE THE QUANTITY OF EMPLOYEE-OWNED FIRMS WHILE MITIGATING FINANCIAL COST TO THE GOVERNMENT.

ROUTE ONE: THE GOVERNMENT COULD RAISE TAXES ON BUSINESS SALES NOT TO AN EOT, WHILE KEEPING SALES TO AN EOT TAXED AT THE PRESENT RATES. THEREBY INCENTIVIZING BUSINESS OWNERS TO SELL TO EOTS AND BOOSTING GOVERNMENT REVENUE. HOWEVER, THESE TAX INCREASES COULD BE PROBLEMATIC IF THE OWNER(S) OR EMPLOYEES OF A BUSINESS DO NOT WANT TO TRANSITION TO EMPLOYEE OWNERSHIP (FOR WHATEVER REASON). OWNERS WOULD HAVE TO PAY PREVIOUSLY UNEXPECTED TAXES, POSSIBLY JEOPARDIZING THEIR RETIREMENT PLANS. TEMPORAL CONSIDERATIONS COULD BE ATTACHED TO THIS POLICY IN AN ATTEMPT TO AVOID STYMYING RETIREMENT PLANS, HOWEVER, DOING THIS WOULD UNDOUBTEDLY DELAY EOT ADOPTION. MOREOVER, RAISING TAXES -REGARDLESS OF THE MOTIVE - WOULD ALMOST CERTAINLY BE UNPOPULAR.

ROUTE TWO: THE GOVERNMENT COULD SIMPLY OFFER A PARTIAL CGT EXEMPTION, WHERE THE PROCEEDS FROM SELLING TO AN EOT ARE STILL TAXED, JUST AT A LESSER RATE THAN THE PRESENT. WHILE THIS COULD LEAD TO SLOWER EOT ADOPTION THAN THE UK'S POLICY, IT COULD ALSO BE THE CASE THAT THE COMPLETE CGT EXEMPTION IS 'INCENTIVE-OVERKILL', MEANING A MILD REDUCTION IN FINANCIAL INCENTIVE CREATES LITTLE TO NO DECREASE IN ADOPTION.

GOVERNMENT INCENTIVES SHOULD BE IMPLEMENTED HERE IN CANADA TO SPUR EOT UPTAKE. FURTHER, ANY INCENTIVES FOR EOTS SHOULD BE EXTENDED TO WORKER CO-OPERATIVES AND WORKER SHAREHOLDER CO-OPERATIVES. THIS ALLOWS EMPLOYEES TO CHOOSE THE RIGHT EMPLOYEE OWNERSHIP STRUCTURE FOR THEM, NOT JUST THE INCENTIVIZED ONE.

I HOPE THIS POSTER EXPOSED READERS TO THE INCREDIBLE BENEFITS OF EMPLOYEE OWNERSHIP, AS WELL AS SOME OF THE CONSIDERATIONS BEHIND SUPPORTING VARIOUS INCENTIVE PROGRAMS.