



EMPLOYEE OWNERSHIP TRUSTS: A POLICY REPORT

Prepared by:

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RMEOC
Rocky Mountain Employee
Ownership Center



EMPLOYEE OWNERSHIP
EXPANSION NETWORK



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The mission of the Rocky Mountain Employee Ownership Center (RMEOC) is to build a more just and sustainable economy through employee ownership.

We believe that a just economy is one that works for everyone, that is built upon inclusive and sustainable systems, and that provides equitable opportunity to build wealth. Our current economy benefits too few, at the expense of too many. But employee ownership is a powerful tool to change that.

RMEOC's founders understood the power of employee ownership when they launched the organization as a 501(3) nonprofit in 2012 – and we see growing evidence of it every day as we help more and more businesses become employee owned, creating wealth for working people, helping to close race and gender wealth gaps, and building more sustainable, resilient, and profitable businesses that provide long-term benefit to our communities.

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EXECUTIVE SUMMARY

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Executive Summary

This report surveys some key reasons why employee ownership is an increasingly attractive business model, including: the growing “Silver Tsunami” of retiring business owners seeking to “exit with purpose,” a deepening crisis of wage stagnation and economic inequality, and declining community resilience. Employee ownership of businesses has been one promising response, mostly through ESOPs or Worker Cooperatives. A third form of employee ownership, the Employee Ownership Trust (EOT), is an innovative but underdeveloped alternative. This report describes how EOTs operate and why they may be a better model than ESOPs or Worker Coops in some cases. It also surveys the policy landscape guiding the emergence of EOTs and makes policy suggestions for how governing officials can support this promising development.

Three Challenges

Employee Ownership Trusts (EOTs) are gaining attention because they respond to three major economic challenges in the U.S. today: a “Silver Tsunami” succession crises among small businesses, growing inequality in wealth and wages, and the increasing fragility of local economies. EOTs address these challenges by: 1) providing business owners a relatively straightforward way to “exit with purpose,” preserving the legacy of their business while supporting their employees; 2) offering a business model built on employee benefit and shared profits; and 3) rooting businesses in local communities.

ESOPs, Worker Coops, and EOTs

Employee ownership (EO) transforms business ownership from individual owners and outside investors and towards a model of dignified work and shared prosperity among employee-owners and local communities. The three main models of EO are ESOP, Cooperatives, and Employee Ownership Trusts. Employee Stock Ownership Plans (ESOPs) are a federally-regulated retirement plan through which employees gain ownership of a company through stock shares, held in a trust. Worker coops are a democratic business structure, where workers directly own their business and govern it on a one-person, one-vote basis. Employee Ownership Trusts (EOTs) are a perpetual trust that holds a controlling stake in a business on behalf of employees, and in which Trustees are obligated to pursue employee benefits and other social purposes laid out in a Trust Deed. EOTs are far less complex to launch and maintain than ESOPs, they are well-suited to larger businesses than worker coops and don't demand direct employee governance of the workplace, and they allow for a business to perpetually remain true to social values and purposes embedded in the trust document.

Public Policy Limitations on EOT Expansion

Though EOTs are a flexible and promising model, they remain exceptionally rare in the US, where fewer than 100 exist. This dearth of EOTs is partly a result of public policy: US jurisdictions simply haven't embraced EOTs in law as extensively as they have ESOPs and (to lesser extent) worker cooperatives. This report surveys the few states that do have EOT-enabling policies and describes some common limitations in policy.

Problems include that most states don't mention or define employee owned trusts anywhere in state law, few states offer tax advantages or other financial incentives for creating an EOT, and most officials, business owners, and employees know very little about the model. A dearth of public understanding and supportive legislation is limiting the impact of this very promising business model.

Policy Proposals to Help EOTs Meet Their Moment

The United States can learn from the United Kingdom. In the UK, an EOT-supportive Public Finance Act in 2014 resulted in a dramatic growth of EOTs, such that this business form is now the most popular form of employee ownership there. Though similarly comprehensive federal legislation is unlikely in the fractious US system, state-level policy innovations are possible. Important policy proposals include:

- 1) Defining EOTs more clearly as a recognized business form in **State Trust Law** and other statutes
- 2) Providing **Favorable Tax Treatment** for EOTs, such as allowing exemption from state capital gains taxes when business owners sell to EOTs
- 3) Passing **Preferred Procurement/Bid Preference** policies for EOTs
- 4) Catalyzing a Stronger **EOT Support Eco-System**.

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Why EOTs Matter: Contemporary Economic Challenges

Employee Ownership Trusts (EOTs) are gaining attention because they respond to several major **economic challenges** in the U.S. today: succession crises among small businesses, inequality in wealth and wages, and the fragility of local economies.

➤ *Business Succession Crisis*

- **The Challenge:** Tens of thousands of baby boomer-owned businesses are at risk of closing or being sold to out-of-state buyers or private equity because owners are retiring.
- **EOT Response:** EOTs offer a **simple ownership transition tool** that allows retiring owners to sell their companies to local employees, preserving jobs and community wealth. Unlike ESOPs, EOTs don't require complex retirement-plan compliance, and unlike private sales, they ensure that ownership is permanently preserved.

➤ *Wage and Wealth Inequality*

- **The Challenge:** Wealth in the U.S. is heavily concentrated, and most workers have limited access to ownership and capital gains. Wages often stagnate even when businesses do well.
- **EOT Response:** Because EOTs distribute profits broadly among all employees, they **democratize business wealth**. Employees share in the upside of enterprise success, reducing inequality and helping ordinary workers build financial stability.

➤ *Job Retention, Community Stability, & Economic Resilience*

- **The Challenge:** Traditional ownership structures often prioritize short-term profits and are vulnerable to shocks, leaving workers and communities exposed during downturns. When businesses are sold to absentee owners, jobs often disappear, communities lose anchors, and economic leakage drains local economies.
- **EOT Response:** Local ownership and employee-owned businesses — including those held in trusts — focus on long-term employee benefit and tend to be **more resilient during recessions**. Employees are more engaged, turnover is lower, and companies prioritize stability over speculative returns. They reduce the risk of closures or relocations, keeping businesses embedded in their communities for the long term.

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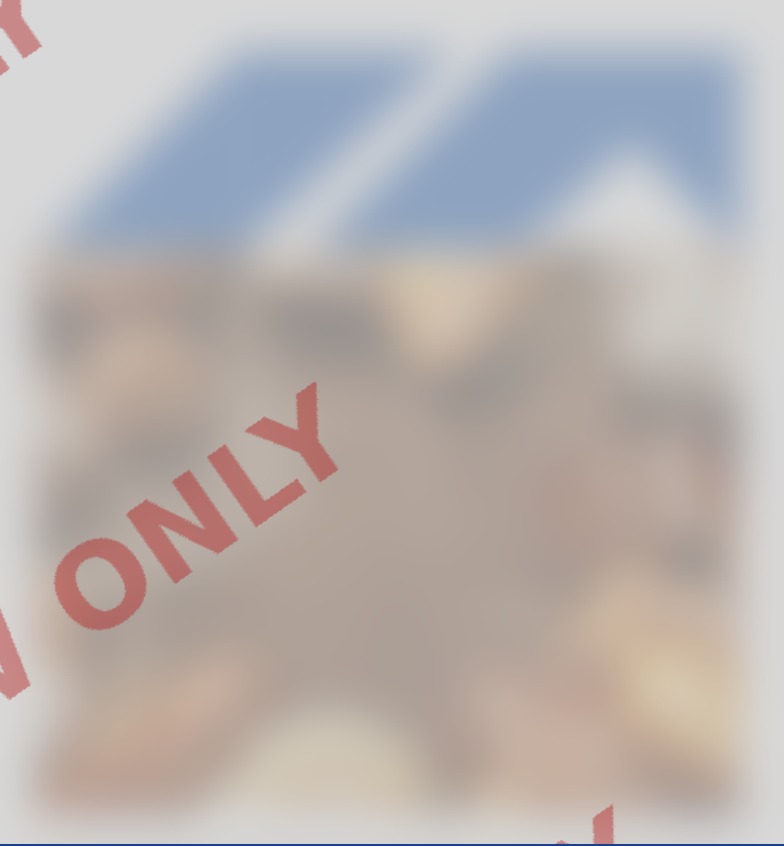
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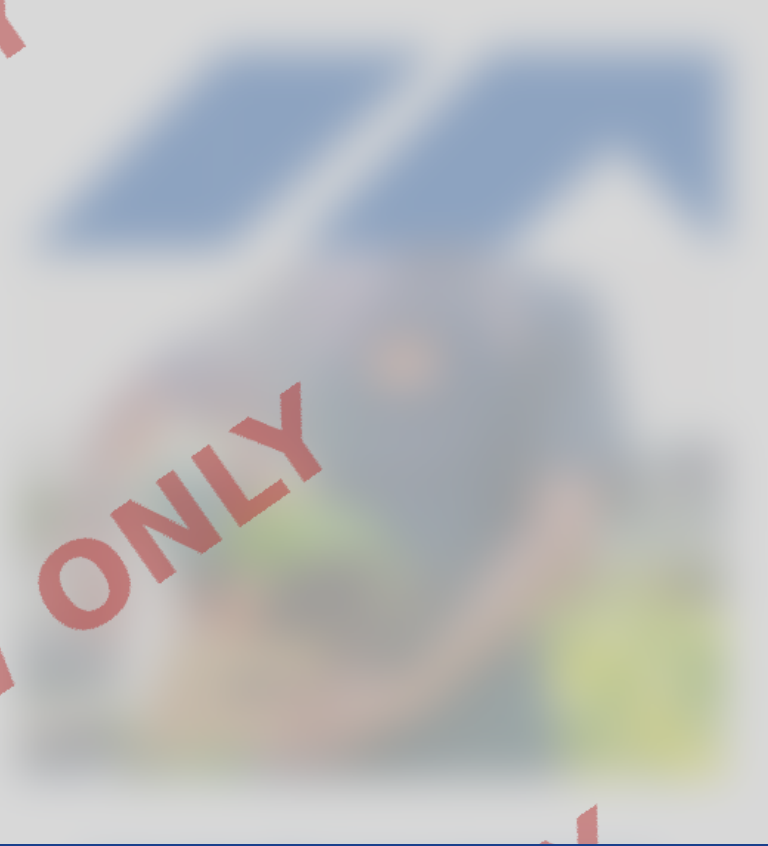
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