

# **Special Notice**

Intended audience: Businesses converting to an employee ownership structure.

[June 6, 2024]

## **Employee ownership program B&O tax credit**

Beginning July 1, 2024, qualified businesses converting to an employee ownership structure may take a credit against their business and occupation (B&O) tax for part of the costs related to the conversion.

## What is an employee ownership structure?

Employee ownership structure means a business structured as any of the following:

- Worker-owned cooperative.
- Employee ownership trust.
- Employee stock ownership plan.

#### How much is the credit?

The credit is equal to:

- Up to 50%, but no more than \$25,000, of the costs of converting a qualified business to a worker-owned cooperative or an employee ownership trust.
- Up to 50%, but no more than \$100,000, of the costs of converting a qualified business to an employee stock ownership plan.

#### How do I claim the credit?

You must submit an application to the department through your My DOR account. Applications will be approved on a first-in-time basis. The total amount of credits per year is capped at \$2,000,000.

The department cannot approve credits above this annual limit.

If approved, you may claim the credit on your excise tax return starting in the reporting period when the conversion is complete. You may carry forward any unused credit for up to 12 months. The credit cannot exceed your B&O tax liability, and the department cannot issue refunds.

No credits can be earned after June 30, 2029. Additionally, no credits can be claimed on returns for filing periods starting on or after July 1, 2030.

### **Definitions**

**Conversion costs** means professional services, including accounting, legal, and business advisory services for either of the following:

- A feasibility study or other preliminary assessments regarding a transition of a business to an employee stock ownership plan, a worker-owned cooperative, or an employee ownership trust.
- The transition of a business to an employee stock ownership plan, a worker-owned cooperative, or an employee ownership trust.

**Employee ownership trust** means an indirect form of employee ownership in which a trust holds a controlling stake in a qualified business and benefits all employees on an equal basis.

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

**Qualified business** means a person subject to B&O tax, including but not limited to a C corporation, S corporation, limited liability company, partnership, limited liability partnership, sole proprietorship, or other similar pass-through entity, that is not owned in whole or in part by an employee ownership trust, that does not have an employee stock ownership plan, or that is not, in whole or in part, a worker-owned cooperative, and that is approved by the department for the employee ownership program B&O tax credit.

**Worker-owned cooperative** has the same meaning as set forth in 26 U.S.C. Sec. 1042(c)(2), as of July 1, 2024, or such subsequent dates as may be provided by rule by the department.

## Questions

For questions about the credit, please call our Taxpayer Account Administration division at 360-705-6214.

#### More information

RCW 82.04.4488