

## Massachusetts House of Representatives Bill Summary

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| <b>Bill #:</b>             | H.503   |
| <b>Title:</b>              | An Act promoting entrepreneurship through employee ownership  |
| <b>Sponsor:</b>            | Rep. Christopher Worrell and Rep. Sean Garballey  |
| <b>Committee:</b>          | Economic Development and Emerging Technologies  |
| <b>Hearing Date:</b>       | June 5, 2025  |
| <b>Reporting Deadline:</b> | August 4, 2025 (subject to extensions under House Rule 27)  |
| <b>Prior History:</b>      | N/A   |
| <b>Similar Matters:</b>    | S.305 filed by Sen. Paul Mark (Identical Senate bill in the Economic Development and Emerging Technologies Committee) |
| <b>Key Terms:</b>          | MGL refers to the Massachusetts General Laws.   |

The Employee-Owned Revolving Loan Fund, which is established in chapter 23D of MGL, is a fund established within the Massachusetts Growth Capital Corporation to provide low-interest, long-term loans for individuals to purchase ownership interests in employee-owned businesses. This fund includes all money designated for the fund by the board of directors of the Massachusetts Growth Capital Corporation in consultation with the director of the Massachusetts Center for Employee Ownership (MassCEO).

Massachusetts Growth Capital Corporation is a quasi-public economic development agency that was formed in 2010 under chapter 40W of MGL. The purpose of this agency is to create and preserve jobs at small businesses and to promote economic development throughout Massachusetts, with special attention to business needs in underserved areas and gateway cities. This agency merged with MassDevelopment under Chapter 238 of the Acts of 2024, the Massachusetts Leads Act.

Massachusetts Center for Employee Ownership (MassCEO) is outlined in chapter 23D of MGL and is a state funded office within the

Massachusetts Office of Business Development that aims to provide information, resources and technical assistance to help Massachusetts businesses transition to employee ownership models, such as worker cooperatives or ESOPs (employee stock ownership plans). They provide services such as assessing the feasibility of employee ownership transitions, identifying goals for transitioning to employee ownership, connecting business owners with service providers who can assist with the transition, and providing training and education on employee ownership.

C Corporation is a type of legal entity that is separate from its owners, meaning it can own property, enter into contracts, be sued, and is taxed separately from its owner.

S Corporation is a type of corporation that elects to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. These include retail stores, banks, car dealerships, and movie theaters.

Limited liability company is a business structure that combines the pass-through taxation of a partnership or sole proprietorship with the limited liability of a corporation, which protects the owners' personal assets from business debts and liabilities.

A partnership is a legal agreement where two or more people or entities agree to share ownership and operation of a business, sharing in profits, losses, and responsibilities.

A limited liability partnership is a business structure where partners have limited personal liability for the debts and obligations of the partnership, meaning their personal assets are protected from claims against the business.

A sole proprietorship is a business structure where a single individual owns and operates the business, with no legal distinction between the owner and the business, meaning the owner is personally liable for all business debts and obligations.

A pass-through entity refers to a business that is not subject to the corporate income tax or any other entity-level tax but instead their owners or members include their allocated shares of profits in taxable income under the individual income tax. Some examples include sole proprietorships, partnerships, limited liability companies and S-corporations.

A publicly traded company is a company whose shares are offered and trade on a public stock exchange, allowing anyone with an investment account to buy and sell ownership in the company.

A medium sized business is defined by the US Small Business Administration as a business that generally has between 100-499 employees.

A large sized business is defined by the US Small Business Administration as a business that generally has between 500 or more employees.

Capital gains refer to the increase in a capital assets value over the original purchase price of the capital asset.

**Current  
Law:**

Chapter 23D of MGL concerns the Employee-Ownership Revolving Loan Fund, which intends to support employee ownership of businesses, promoting economic development and stability. This chapter outlines the fund's purpose, operations, and related provisions such as the Center for Employee Ownership and other grant programs.

Chapter 62 of MGL governs the taxation of incomes. Section 4 of this chapter includes the tax rate for capital gains.

- Short-term capital gains (held for 1 year or less) are currently taxed at a rate of 8.5% with a rate up to 12.5% (if income is greater than \$1,083, 150).
- Long-term capital gains (held for over 1 year) are currently taxed at a rate of 5% with a rate up to 9% (if income is greater than \$1,083,150).

According to this section, taxable income consisting of capital gains shall be taxed at the rate of 12%; provided, however, that any gain from the sale or exchange of capital assets that were held for 1 year or less shall be taxed at the rate of 8.5%

Chapter 62B of MGL deals with the withholding of taxes on wages and the declaration of estimated income tax.

Chapter 157A of MGL governs employee cooperative corporations. This chapter defines an employee cooperative as a corporation which has elected to be governed by the provisions of this chapter.

CFR 121.201 is the code of federal regulations that defines the size of a small business. According to this regulation, a small business is defined based on industry-specific size standards, typically measured

by the number of employees or average annual receipts. The size standards are determined using the North American Industry Classification System codes.

**Summary:** This bill inserts a new section in chapter 23D, which deals with the Employee-Ownership Revolving Fund, that outlines the sale process for a qualified business to become an employee-owned business. The bill also provides definitions for various terms related to this sale process.

Section 1 of this bill amends chapter 23D of MGL by inserting a new section, section 6A, following section 6 of this chapter.

Subsection (a) of this new section provides definitions for the terms: “qualified business”, “owner”, “qualified employee group”, “employee-owned business”, and “qualified business sale”.

A qualified business shall refer to an entity that:

- Has operated a principal place of business in Massachusetts for at least 1 year
- Is a taxpayer subject to Massachusetts tax under chapter 62B of MGL, but is not limited to a C corporation, S corporation, limited liability company, partnership, limited liability partnership, or a sole proprietorship
- Is a privately held business
- Has at least 3 workers not including the owner, or other similar pass-through entity
- Meets the relevant size standards for a small business by industry, as set forth by the US Small Business Administration in CFR 121.201
- Is not a medium or large business as defined by the US Small Business Administration
- Is not a publicly traded company

Owner refers to the owner(s) of a qualified business prior to a qualified business sale.

Qualified employee group (QEG) refers to a group containing at least a simple majority of full-time and/or part-time workers at the qualified business, totaling a minimum of 3 workers, at the point of formal notice of business sale by the owner to workers.

Employee-owned business refers to an employee cooperative corporation organized under chapter 157A of MGL or a limited liability company (LLC) or a limited liability partnership (LLP), whose bylaws,

operating agreement or partnership agreement meets the following requirements:

- All persons meet the definition of employee owner (“worker owner”) according to the bylaws, operating agreement or partnership agreement of the business, are voting members of the company and have equal voting rights in all decisions brought before the membership.
- Any profits distributed to said worker owners by the company are distributed based off their patronage in the company, with patronage measured based on the labor supplied to the economy.

Qualified business sale refers to any transaction between the owner of a qualified business and a qualified employee group that concludes in the qualified business becoming an employee-owned business or at least a 51% increment of total ownership of the qualified business being transferred to an employee-owned business. This transaction shall not include transfers by inheritance, nor transfers or sales to immediate family, which is defined as siblings, spouses and/or children.

Subsection (b) outlines the process concerning the sale of a qualified business to its employees/workers to become an employee-owned business.

Subsection (i) of subsection (b) stipulates that if the owner of a qualified business decides to sell the business or at least 51% of total ownership of the business in an equity sale, the owner must notify all current full-time and part-time workers at the business within 7 days of the decision in a dated written notice. This notice must be posted on the date listed in the notice in a prominent location to which all workers have access, or if no such place exists, via an existing electronic medium used to communicate with these workers. The notice must include:

- Date of the notice
- The owner’s intent to sell the business
- Contact information for the Massachusetts Center for Employee Ownership (MassCEO), including the MassCEO website, specifying MassCEO as a resource to assist workers considering buying the business
- Any price the owner of the business proposes for the sale

Subsection (ii) of subsection (b) holds that if a qualified employee group does not purchase 100% of total ownership of this business, such as where owners or other parties retain or purchase a stake in the business, the provisions of this section shall only apply if the

qualified employee group holds the sole voting rights and decision-making power in the resulting business. Sales of the business that include agreements infringing on this requirement for democratic governance by worker-owners shall nullify the benefits to the owner from this section.

Subsection (iii) of subsection (b) states that any group of employees that is qualified to form a qualified employee group has 30 days from the date of the notice being posted or upon the workers' electronic receipt of said notice, to signal in writing via registered mail to the owner of the business, their intent to buy the business. This notice of intent shall include all members of the qualified employee group. The owner shall immediately make available any financial records necessary to evaluate the health and value of the business, following the signing of a non-disclosure agreement between the owner and the qualified employee group. If 30 days lapses and no qualified employee group has signaled interest in purchasing the business, the owner shall be free to sell the business as they please.

Subsection (iv) of subsection (b) holds that from the date in which a qualified employee group signals their intent to buy the business, the owner and the qualified employee group shall have 180 days to have the value of the business assessed by a qualified independent business valuation consultant agreed to by the owner and the qualified employee group and to reach an agreement on the price. If there is a competing good faith offer by a third party, the qualified employee group shall have the opportunity to match that offer.

Subsection (v) of subsection (b) states that if the owner and the qualified employee group reach a price that is substantially equivalent or superior to all other good-faith offers received on the open-market within the 180-day period, the owner shall be obligated to sell the business to the qualified employee group. The highest bid need not be the winning bid, and the owner may sell to a qualified employee group for reasons other than preferring the highest bid.

Subsection (vi) of subsection (b) holds that in the event of a qualified business sale, the owner shall be exempted from obligation under section 4 of chapter 62 of MGL to pay the state capital gains tax or any gains from the sale of the business under \$1,000,000. Any gains from the sale of the business over \$1,000,000 shall continue to be subject to the relevant capital gains tax. In the event of a partial sale of the business to a qualified employee group, this exemption shall only apply to the proportion of the business being sold to the qualified employee group.

Subsection (vii) of subsection (b) states that all union membership or collective bargaining agreements existing prior to a qualified business sale shall continue to be in effect under the new ownership structure.

Subsection (viii) of subsection (b) holds that upon the completion of a qualified business sale, the resulting business shall not be subject to external governance, decision-making or management influence from non-worker or non-member parties, including non-member shareholders or outside investors. Any contract enabling control of the company by outside investors shall not be in compliance with this section.

Subsection (ix) of subsection (b) states that if the owner of a qualified business fails to comply with the terms of this section, the qualified employee group shall have the right to demand a court injunction to stop such improper sale and require compliance with this section.

**Notes:**

This bill references the Massachusetts Growth Capital Corporation, which merged with MassDevelopment in Chapter 238 of the Acts of 2024, the Massachusetts Leads Act.