

**The ESOP Association's Submission for the Hearing Record**  
**Committee on Ways and Means**  
**Hearing on Fundamental Tax Reform**  
**Thursday, January 20, 2011**

Chairman Camp, Ranking Member Levin, and distinguished members of the House Committee on Ways and Means, this statement is submitted by J. Michael Keeling, Chief Staff Officer and President of The ESOP Association.

The ESOP Association is a 501(c)(6) business trade association whose primary members are U.S. corporations that sponsor an employee stock ownership plan, or ESOP. Its secondary members provide services to these ESOP sponsors that are unique to sponsoring an ESOP.

The Corporate members in all 50 states number around 1400. Of the 1400 approximately 70% are S corporations, and approximately 70% are owned 50% or more by the ESOP. Of the 1400, 91.2% employee fewer than 500 employees and 53.9% employee fewer than 100 employees.

Before closing this statement for the record, I will note why these demographics influence observations made about the general rhetoric about tax reform from leaders of Congress, the President, prominent think tank economists, media, and major trade association as defined by size.

But first, I wanted to echo what many others are saying.

Yes, do tax reform, but do not do it expeditiously.

In other words, use the 1986 Tax Reform process as your model.

The House Ways and Means Committee spent all of 1985 developing a tax reform bill. The Committee had hearings on every chapter of the then 1954 Internal Revenue Code.

These hearings focused on a tax reform proposal developed by the Administration of President Ronald Reagan that was made public in 1984. In fact, President Reagan actually presented tax reform proposal number one, and then number two.

At the conclusion of its hearings, the then chair of Ways and Means presented a revised tax reform proposal, labeled "Rostenkowski One", after then Chair Dan Rostenkowski.

Ways and Means worked deliberately through mark-ups on each title of Rostenkowski One. The mark-up opened all provisions to amendments, from both majority and minority members.

The mark-ups were open to the public, which of course meant most in the grand Ways and Means Committee were lobbyists for the various interest that could be impacted by the legislation.

## **Cont. of The ESOP Association's Testimony on Tax Reform**

Some interests had their views adopted; some did not; some obtained half a loaf. (That was the outcome for ESOPs by the way in the Committee.)

But everyone was heard; everyone had a chance to explain their case.

In other words, it was a fair process.

Please do the same, whether it takes you one year, two years, three years or even four, to develop a massive re-write of the current Federal Income Tax laws.

So, we do not need to make a detailed, chest thumping case for tax laws promoting ESOPs in this statement.

Hopefully we can do so when you wish to review whether ESOPs can justify their existence, and the laws to encourage ESOP creation and operation.

Before closing, however, I would like to return to the demographics of the Association members, which we feel reflect the demographics of all ESOP companies, whether members of the Association are not.

Like the vast majority of U.S. businesses, ESOPs are privately held. Many may have overseas sales, and even locations overseas, but they are not large multi-national businesses.

Like most U.S. corporations, these ESOP companies are not taxed at the corporate level.

It seems that at times the talk about tax reform focuses only on lowering the C corporation tax rate. No one complains about desires to make large multi-national U.S. corporations more competitive, and tax rates should always be as low as possible without sacrificing our nation's welfare and defense.

But tax reform should be about individual tax rates and preferences for individuals as well. And my thought is, individual tax rates, and individual tax preferences are just as much about U.S. businesses as are C corporate tax rates.

So, if you consider tax reform, don't just do corporate tax laws. Do the entire Code, as was done in the 1984-1986 time frame.

Thank you for this opportunity to submit a statement for the record, and if tax reform begins, we look forward to being with the Committee for oral testimony: making the case for ESOPs based on fact and performance; we believe we will be persuasive.