

University of Pennsylvania Study Findings 7-28-08

New University of Pennsylvania Study Finds S ESOPs Yield Billions in New Benefits for U.S. Workers and the Economy

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WASHINGTON, July 28, 2008 /PRNewswire-USNewswire via COMTEX/ -- In a new University of Pennsylvania study, two leading tax and economic experts found that Subchapter S companies owned by their employees through ESOPs generate some 85,000 new jobs each year and create \$14 billion in new savings for workers that otherwise would not have been earned. "From a long-term societal perspective," write the study's authors, "it is perhaps the best possible gain: a forced retirement plan."

The authors reported that S ESOPs offer their workers higher job stability, which accounts for \$3 billion worth of the workers' savings. Moreover, they found, S ESOPs' higher productivity, profitability, job stability and job growth collectively help ESOP companies amass \$33 billion more in combined earnings than what they would earn if they were not ESOP-owned S corporations.

The authors' economic analysis of the current-law tax benefits for S ESOP companies led them to conclude that the creation of S ESOPs by Congress more than a decade ago has increased tax collections from both employees and employers. This, the authors report, is largely because the additional wealth created by S ESOPs generates additional federal and state taxes; because S ESOPs do not expand capacity among deferred-tax savings options (such as 401k's and others, which they note are under-utilized); and because workers pay taxes on their S ESOP savings accounts when they are liquidated at rates substantially higher than what are paid on other tax-deferred plans.

The study, which represents the first ever assessment of the costs and benefits of S corporation ESOP laws, was released yesterday by the University of Pennsylvania's Michael Knoll and Steven Freeman. Freeman is a Senior Lecturer and Resident Scholar in the School of Arts and Sciences and Resident Scholar in the School's Center for Organizational Dynamics. Knoll is the Theodore Warner Professor of Law and holds a secondary appointment at the Wharton School. S corporation ESOPs have become the subject of some scrutiny, noted Knoll and Freeman, since the December 2007 announcement by Chicago financier Sam Zell that he was acquiring the iconic Tribune Company and converting it to an S-ESOP company. According to the authors, Congressional passage of laws allowing for S ESOPs more than a decade ago has led to the creation of nearly 3,700 S ESOP companies nationwide (about 40 percent of all U.S. ESOPs), and that about 3.7 million Americans work and participate in S ESOPs.

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