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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2026

A N A C T

RELATING TO TAXATION -- EMPLOYEE OWNERSHIP TAX CREDIT

Introduced By: Representatives McEntee, Spears, Craven, Bennett, Diaz, Edwards, and Caldwell

Date Introduced: February 11, 2026

Referred To: House Finance

(Lieutenant Governor)

It is enacted by the General Assembly as follows:

SECTION 1. Findings and purpose.

The general assembly finds and declares that the purposes of the tax credit created in chapter 73 of title 44 is to induce certain designated behavior by taxpayers, to create or retain jobs, and to provide income tax relief for certain businesses or individuals. Specifically, the tax credit facilitates employee ownership and the retention of community investment and wealth by business owners and employers in a community.

SECTION 2. Title 44 of the General Laws entitled "TAXATION" is hereby amended by adding thereto the following chapter:

CHAPTER 73

EMPLOYEE OWNERSHIP TAX CREDIT

44-73-1. Definitions.

For the purposes of this section, unless the context otherwise requires:

(1) "Alternate equity structure" means a mechanism under which an employer grants to employees a form of employee ownership including, but not limited to, an employee stock ownership plan, LLC membership, phantom stock, profit interest, restricted stock, stock appreciation right, stock option, or synthetic equity. An alternative equity structure must at a minimum:

(i) Grant rights to or be offered at least twenty percent (20%) of an employer's eligible workers, or grant rights to or be offered to at least twenty percent (20%) of eligible workers of an employer that is owned by or operated for the benefit of eligible workers in a broad-based employee ownership transition. For the purposes of this definition, "eligible workers" means all full-time employees, regular employees, non-seasonal employees, non-managerial employees, and contract labor;

(ii) Have the participation of at least twenty percent (20%) of an employer's eligible workers;

(iii) Allocate at least twenty percent (20%) of the fully diluted securities or rights to a synthetic interest in securities to participating eligible workers, or allocate twenty percent (20%) of net profit from operations to participating eligible workers; and

(iv) Grant to participating eligible workers informational rights, decision-making rights, and non-financial rights that are equal to or greater than the rights that are granted to holders of the employer's common stock or holders of the employer's residual membership interest.

(2) "Conversion costs" means professional services, including accounting, legal, and business advisory services, for the transition of a business to employee ownership trust, an employee stock ownership plan, or a worker-owned cooperative. "Conversion costs" include costs to audit the cost certification as required in this section.

(3) "Department" means the Rhode Island department of revenue.

(4) "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.

(5) "Employee stock ownership plan" has the same definition as set forth in 26 U.S.C. § 4975 (e)(7) of the Internal Revenue Code, as amended.

(6) "Expansion costs" means professional services, including accounting, legal, and business advisory services, as detailed in the guidelines issued by the office, for the expansion of a qualified employee-owned business's employee ownership trust, employee stock ownership plan, worker-owned cooperative, or alternate equity structure. Expansion costs include costs to audit the cost of certification.

(7) "Office" means business development center as established in § 42-64-39

(8) "Owner" means the owner of a qualified business before a conversion occurs.

(9) "Qualified business" means a taxpayer subject to tax under this chapter including, but not limited to, a C Corporation, S Corporation, limited liability company, partnership, limited liability partnership, a 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, that is not, in whole or in part, a worker-owned cooperative, or does not have an alternate equity structure, and that is approved by the office for the tax incentives in this section.

(10) "Qualified employee-owned business" means a taxpayer that is subject to tax under this chapter including, but not limited to, a C Corporation, S Corporation, limited liability company, partnership, limited liability partnership, a sole proprietorship, or other similar pass-through entity, that:

(i) Is owned in whole or in part by an employee-ownership trust;

(ii) Has an employee stock ownership program;

(iii) Is in whole or in part a worker-owned cooperative; or

(iv) Has an alternate equity structure; and

(v) Is approved by the office for the tax incentives in this section.

(11) "Worker-owned cooperative" has the same meaning as set forth in § 7-6.2-2.

44-73-2. Tax Credit.

(a) Subject to the certification by the office pursuant to this section, for income tax years commencing on or after January 1, 2026, but prior to January 1, 2029, a qualified business is allowed a credit with respect to the income taxes imposed as follows:

(1) Up to fifty percent (50%) of the conversion costs, not to exceed one hundred thousand dollars ($100,000), incurred by a qualified business for converting the qualified business to a worker-owned cooperative or an employee-ownership trust;

(2) Up to fifty percent (50%) of the conversion costs, not to exceed one hundred thousand dollars ($100,000), incurred by a qualified business to an employee stock ownership plan; or

(3) Up to fifty percent (50%) of the conversion costs, not to exceed twenty-five thousand dollars ($25,000), incurred by a qualified business for converting the qualified business to an alternate equity structure.

(b) Subject to the certification by the office pursuant to this section, for income tax years commencing on or after January 1, 2026, but prior to January 1, 2029, a qualified employee-owned business is allowed a credit with respect to the income taxes imposed of up to fifty percent (50%) of the expansion costs, not to exceed twenty-five thousand dollars ($25,000), incurred to expand a qualified employee-owned business's employee-ownership trust, employee stock ownership program, worker-owned cooperative, or alternate equity structure.

(1) To be eligible for the credit allowed pursuant to this section, a qualified employee-owned business must expand its employee ownership trust, employee stock ownership program, worker-owned cooperative, or alternate equity structure by an increment of at least twenty percent (20%) of the total ownership of the entire qualified employee-owned business.

(2) In the case of a qualified business or qualified employee-owned business that is a C Corporation, the credit is allowed to the qualified business or the qualified employee-owned

business.

(3) In the case of a qualified business or qualified employee-owned business that is a partnership or S Corporation, the credit is allowed to the owner of the business.

44-73-3. Procedure.

(a) The office shall develop guidelines for the administration of this chapter including, but not limited to:

(1) Application requirements;

(2) Guidelines for eligible conversion or expansion costs;

(3) Guidelines and standards for certifying a business as a qualified employee-owned business; and

(4) Guidelines for making known the existence of this tax credit, communicating with small business owners and chambers of commerce, and ensuring that there is equal access to this credit across language barriers.

(b) A business shall submit an application to the office for the issuance of a credit certificate for the credit allowed in this chapter by the deadlines established in the office's guidelines. The application must include information, as set forth in the office's guidelines, regarding the type of conversion or expansion the business intends to undertake, a list of the expected conversion or expansion costs, and an estimated amount, as calculated by the business, of the expected conversion or expansion costs.

(c) To claim the tax credit allowed in § 44-73-2, a qualified business or qualified employee-owned business must annually apply for and receive a tax credit certificate from the office. The submission of an application does not entitle the qualified business to the issuance of a tax credit certificate.

(d) The office shall document the date and time that a complete application was received and shall review complete applications in the order in which they are received. If the office determines that an applicant is not entitled to a tax credit certificate, the office shall notify the applicant of its disapproval in writing.

(e) If the office is satisfied that the requirements of this section and the office's guidelines for the tax credit are met, then the office shall issue to the qualified business or qualified employee-owned business a tax credit certificate that evidences their right to claim the tax credit allowed in this chapter. The office shall not issue tax credit certificates in excess of the maximum aggregate amount for any single income tax year specified in subsection (f) of this section.

(f) The maximum aggregate amount of all tax credit certificates that the office may issue pursuant to this section in any single income tax year is one million dollars ($1,000,000).

44-73-4. Claiming tax credit.

To claim the tax credit allowed in § 44-73-2, the qualified business or qualified employee-owned business shall file the tax credit certificate with their state income tax return. If the amount of the tax credit exceeds the taxes due on the income of the qualified business or qualified employee-owned business for the taxable year for which the tax credit is claimed, the amount of the tax credit not used to offset income taxes must be refunded to the qualified business or qualified employee-owned business.

44-73-5. Severability.

If any portion of this law is found by a court of competent jurisdiction to be unlawful, such finding shall not affect any other portion of said law not specifically so found.

SECTION 3. This act shall take effect upon passage.

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EXPLANATION

BY THE LEGISLATIVE COUNCIL

OF

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RELATING TO TAXATION -- EMPLOYEE OWNERSHIP TAX CREDIT

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This act would establish a tax credit for businesses transitioning to employee ownership.

This act would take effect upon passage.

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