



State of Wisconsin
2025 - 2026 LEGISLATURE

LRBs0049/1

KP:cdc

SENATE SUBSTITUTE AMENDMENT 1,
TO SENATE BILL 21

May 13, 2025 - Offered by Senator JAMES.

1 **AN ACT** *to amend* 71.05 (6) (a) 15., 71.21 (4) (a), 71.26 (2) (a) 4., 71.34 (1k) (g)
2 and 71.45 (2) (a) 10.; **to create** 71.05 (6) (b) 57., 71.07 (12), 71.10 (4) (em),
3 71.26 (2) (a) 13., 71.28 (12), 71.30 (3) (am), 71.45 (2) (a) 25., 71.47 (12), 71.49
4 (1) (am) and 73.03 (78) of the statutes; **relating to:** creating an employee
5 ownership conversion costs tax credit, a deduction for capital gains from the
6 transfer of a business to employee ownership, and applying for a grant for an
7 employee ownership education program.

Analysis by the Legislative Reference Bureau

This bill creates tax incentives related to businesses in this state converting to an employee ownership business structure and authorizes the Department of Revenue to apply for a federal grant for a program to promote employee ownership business structures and the tax incentives created by the bill.

Employee ownership conversion costs tax credit

Under the bill, a person who incurs conversion costs for transitioning a

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qualifying business to an employee stock ownership plan or worker-owned cooperative may claim a nonrefundable income tax credit equal to those conversion costs, up to \$100,000. The bill defines “conversion costs” as professional services, including accounting, legal, and business advisory services for any of the following: 1) a feasibility study or other preliminary assessment regarding a transition to an employee stock ownership plan or worker-owned cooperative; or 2) a transition to an employee stock ownership plan or worker-owned cooperative. A business is qualified to receive the credit if the business is subject to income and franchise taxes in this state and, at the time the business receives the credit, does not have an employee stock ownership plan and is not, in whole or in part, a worker-owned cooperative.

Capital gain deduction

The bill also creates an individual income tax subtraction and a corporate income and franchise tax deduction for the amount of the capital gain realized from the transfer of ownership of a business commercially domiciled in this state to an employee stock ownership plan or worker-owned cooperative.

Employee ownership education program

Finally, the bill authorizes DOR to apply to the U.S. secretary of labor for a grant under 29 USC 3228 to establish a program to promote employee ownership business structures, the employee ownership conversion costs tax credit, and the subtraction and deduction for capital gains from the transfer of a business to an employee stock ownership plan or worker-owned cooperative.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

1 **SECTION 1.** 71.05 (6) (a) 15. of the statutes is amended to read:

2 71.05 **(6)** (a) 15. The amount of the credits computed under s. 71.07 (2dm),
3 (2dx), (2dy), (3g), (3h), (3n), (3q), (3s), (3t), (3w), (3wm), (3y), (4k), (4n), (5i), (5j), (5k),
4 (5r), (5rm), (6n), ~~and (10), and (12)~~ and not passed through by a partnership, limited
5 liability company, or tax-option corporation that has added that amount to the
6 partnership’s, company’s, or tax-option corporation’s income under s. 71.21 (4) or
7 71.34 (1k) (g).

8 **SECTION 2.** 71.05 (6) (b) 57. of the statutes is created to read:

9 71.05 **(6)** (b) 57. a. For taxable years beginning after December 31, 2024, to

1 the extent otherwise included in Wisconsin taxable income if not for this
2 subdivision, the amount of the capital gain as computed under the Internal
3 Revenue Code from the transfer of ownership of a business whose commercial
4 domicile, as defined in s. 71.22 (1g), is in this state to an employee stock ownership
5 plan or a worker-owned cooperative.

6 b. No modification may be claimed under this subdivision unless an employee
7 stock ownership plan or worker-owned cooperative owns more than 50 percent of the
8 business whose transfer results in a capital gain described in subd. 57. a.,
9 determined immediately after such transfer.

10 c. In this subdivision, “employee stock ownership plan” has the meaning given
11 in section 4975 (e) (7) of the Internal Revenue Code.

12 d. In this subdivision, “worker-owned cooperative” has the meaning given for
13 “eligible worker-owned cooperative” in section 1042 (c) (2) of the Internal Revenue
14 Code.

15 **SECTION 3.** 71.07 (12) of the statutes is created to read:

16 **71.07 (12) EMPLOYEE OWNERSHIP CONVERSION COSTS CREDIT.** (a) *Definitions.*

17 In this subsection:

18 1. “Claimant” means a person who incurred conversion costs and files a claim
19 under this subsection.

20 2. “Conversion costs” means professional services, including accounting,
21 legal, and business advisory services for any of the following:

22 a. A feasibility study or other preliminary assessment regarding a transition

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1 of a qualified business to an employee stock ownership plan or a worker-owned
2 cooperative.

3 b. The transition of a qualified business to an employee stock ownership plan
4 or a worker-owned cooperative.

5 3. “Employee stock ownership plan” has the meaning given in section 4975 (e)
6 (7) of the Internal Revenue Code.

7 4. “Qualified business” means a person subject to taxes under ch. 71 that does
8 not have an employee stock ownership plan and is not, in whole or in part, a worker-
9 owned cooperative.

10 5. “Worker-owned cooperative” has the meaning given for “eligible worker-
11 owned cooperative” in section 1042 (c) (2) of the Internal Revenue Code.

12 (b) *Filing claims.* For taxable years beginning after December 31, 2024, and
13 subject to the limitations provided in this subsection, a claimant may claim as a
14 credit against the tax imposed under s. 71.02 for the taxable year during which a
15 conversion to an employee stock ownership plan or a worker-owned cooperative is
16 complete, up to the amount of those taxes, either of the following:

17 1. An amount equal to the conversion costs, up to \$100,000, incurred by a
18 claimant for converting more than 50 percent ownership of a qualified business to a
19 worker-owned cooperative.

20 2. An amount equal to the conversion costs, up to \$100,000, incurred by a
21 claimant for converting more than 50 percent ownership of a qualified business to
22 an employee stock ownership plan.

23 (c) *Limitations.* Partnerships, limited liability companies, and tax-option

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1 corporations may not claim the credit under this subsection, but the eligibility for
2 and the amount of the credit are based on the amounts paid by the entities under
3 par. (b). A partnership, limited liability company, or tax-option corporation shall
4 compute the amount of the credit that each of its partners, members, or
5 shareholders may claim and shall provide that information to each of them.
6 Partners, members, and shareholders may claim the credit in proportion to their
7 ownership interests.

8 (d) *Administration.* Section 71.28 (4) (e) to (h), as it applies to the credit under
9 s. 71.28 (4), applies to the credit under this subsection.

10 **SECTION 4.** 71.10 (4) (em) of the statutes is created to read:

11 71.10 (4) (em) Employee ownership conversion costs credit under s. 71.07 (12).

12 **SECTION 5.** 71.21 (4) (a) of the statutes is amended to read:

13 71.21 (4) (a) The amount of the credits computed by a partnership under s.
14 71.07 (2dm), (2dx), (2dy), (3g), (3h), (3n), (3q), (3s), (3t), (3w), (3wm), (3y), (4k), (4n),
15 (5g), (5i), (5j), (5k), (5r), (5rm), (6n), ~~and (10), and (12)~~ and passed through to
16 partners shall be added to the partnership's income.

17 **SECTION 6.** 71.26 (2) (a) 4. of the statutes is amended to read:

18 71.26 (2) (a) 4. Plus the amount of the credit computed under s. 71.28 (1dm),
19 (1dx), (1dy), (3g), (3h), (3n), (3q), (3t), (3w), (3wm), (3y), (5g), (5i), (5j), (5k), (5r),
20 (5rm), (6n), ~~and (10), and (12)~~ and not passed through by a partnership, limited
21 liability company, or tax-option corporation that has added that amount to the
22 partnership's, limited liability company's, or tax-option corporation's income under
23 s. 71.21 (4) or 71.34 (1k) (g).

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SECTION 7. 71.26 (2) (a) 13. of the statutes is created to read:

71.26 (2) (a) 13. a. Minus the amount of the capital gain as computed under the Internal Revenue Code, to the extent included in federal taxable income, from the transfer of ownership of a business whose commercial domicile, as defined in s. 71.22 (1g), is in this state to an employee stock ownership plan or a worker-owned cooperative.

b. The deduction under this subdivision does not apply unless an employee stock ownership plan or worker-owned cooperative owns more than 50 percent of the business whose transfer results in a capital gain described in subd. 13. a., determined immediately after such transfer.

c. In this subdivision, “employee stock ownership plan” has the meaning given in section 4975 (e) (7) of the Internal Revenue Code.

d. In this subdivision, “worker-owned cooperative” has the meaning given for “eligible worker-owned cooperative” in section 1042 (c) (2) of the Internal Revenue Code.

SECTION 8. 71.28 (12) of the statutes is created to read:

71.28 (12) EMPLOYEE OWNERSHIP CONVERSION COSTS CREDIT. (a) *Definitions.*
In this subsection:

1. “Claimant” means a person who incurred conversion costs and files a claim under this subsection.

2. “Conversion costs” means professional services, including accounting, legal, and business advisory services for any of the following:

a. A feasibility study or other preliminary assessment regarding a transition

1 of a qualified business to an employee stock ownership plan or a worker-owned
2 cooperative.

3 b. The transition of a qualified business to an employee stock ownership plan
4 or a worker-owned cooperative.

5 3. “Employee stock ownership plan” has the meaning given in section 4975 (e)
6 (7) of the Internal Revenue Code.

7 4. “Qualified business” means a person subject to taxes under ch. 71 that does
8 not have an employee stock ownership plan and is not, in whole or in part, a worker-
9 owned cooperative.

10 5. “Worker-owned cooperative” has the meaning given for “eligible worker-
11 owned cooperative” in section 1042 (c) (2) of the Internal Revenue Code.

12 (b) *Filing claims.* For taxable years beginning after December 31, 2024, and
13 subject to the limitations provided in this subsection, a claimant may claim as a
14 credit against the tax imposed under s. 71.23 for the taxable year during which a
15 conversion to an employee stock ownership plan or a worker-owned cooperative is
16 complete, up to the amount of those taxes, either of the following:

17 1. An amount equal to the conversion costs, up to \$100,000, incurred by a
18 claimant for converting more than 50 percent ownership of a qualified business to a
19 worker-owned cooperative.

20 2. An amount equal to the conversion costs, up to \$100,000, incurred by a
21 claimant for converting more than 50 percent ownership of a qualified business to
22 an employee stock ownership plan.

23 (c) *Limitations.* Partnerships, limited liability companies, and tax-option

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1 corporations may not claim the credit under this subsection, but the eligibility for
2 and the amount of the credit are based on the amounts paid by the entities under
3 par. (b). A partnership, limited liability company, or tax-option corporation shall
4 compute the amount of the credit that each of its partners, members, or
5 shareholders may claim and shall provide that information to each of them.
6 Partners, members, and shareholders may claim the credit in proportion to their
7 ownership interests.

8 (d) *Administration.* Subsection (4) (e) to (h), as it applies to the credit under
9 sub. (4), applies to the credit under this subsection.

10 **SECTION 9.** 71.30 (3) (am) of the statutes is created to read:

11 71.30 (3) (am) Employee ownership conversion costs credit under s. 71.28 (12).

12 **SECTION 10.** 71.34 (1k) (g) of the statutes is amended to read:

13 71.34 (1k) (g) An addition shall be made for credits computed by a tax-option
14 corporation under s. 71.28 (1dm), (1dx), (1dy), (3), (3g), (3h), (3n), (3q), (3t), (3w),
15 (3wm), (3y), (4), (5), (5g), (5i), (5j), (5k), (5r), (5rm), (6n), ~~and (10),~~ and (12) and
16 passed through to shareholders.

17 **SECTION 11.** 71.45 (2) (a) 10. of the statutes is amended to read:

18 71.45 (2) (a) 10. By adding to federal taxable income the amount of credit
19 computed under s. 71.47 (1dm) to (1dy), (3g), (3h), (3n), (3q), (3w), (3y), (5g), (5i),
20 (5j), (5k), (5r), (5rm), (6n), ~~and (10),~~ and (12) and not passed through by a
21 partnership, limited liability company, or tax-option corporation that has added
22 that amount to the partnership's, limited liability company's, or tax-option

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1 corporation's income under s. 71.21 (4) or 71.34 (1k) (g) and the amount of credit
2 computed under s. 71.47 (3), (3t), (4), (4m), and (5).

3 **SECTION 12.** 71.45 (2) (a) 25. of the statutes is created to read:

4 71.45 (2) (a) 25. a. By subtracting from federal taxable income, to the extent
5 included in federal taxable income, the amount of the capital gain as computed
6 under the Internal Revenue Code from the transfer of ownership of a business
7 whose commercial domicile, as defined in s. 71.22 (1g), is in this state to an
8 employee stock ownership plan or a worker-owned cooperative.

9 b. The deduction under this subdivision does not apply unless an employee
10 stock ownership plan or worker-owned cooperative owns more than 50 percent of the
11 business whose transfer results in a capital gain described in subd. 25. a.,
12 determined immediately after such transfer.

13 c. In this subdivision, "employee stock ownership plan" has the meaning given
14 in section 4975 (e) (7) of the Internal Revenue Code.

15 d. In this subdivision, "worker-owned cooperative" has the meaning given for
16 "eligible worker-owned cooperative" in section 1042 (c) (2) of the Internal Revenue
17 Code.

18 **SECTION 13.** 71.47 (12) of the statutes is created to read:

19 71.47 (12) EMPLOYEE OWNERSHIP CONVERSION COSTS CREDIT. (a) *Definitions.*

20 In this subsection:

21 1. "Claimant" means a person who incurred conversion costs and files a claim
22 under this subsection.

1 2. “Conversion costs” means professional services, including accounting,
2 legal, and business advisory services for any of the following:

3 a. A feasibility study or other preliminary assessment regarding a transition
4 of a qualified business to an employee stock ownership plan or a worker-owned
5 cooperative.

6 b. The transition of a qualified business to an employee stock ownership plan
7 or a worker-owned cooperative.

8 3. “Employee stock ownership plan” has the meaning given in section 4975 (e)
9 (7) of the Internal Revenue Code.

10 4. “Qualified business” means a person subject to taxes under ch. 71 that does
11 not have an employee stock ownership plan and is not, in whole or in part, a worker-
12 owned cooperative.

13 5. “Worker-owned cooperative” has the meaning given for “eligible worker-
14 owned cooperative” in section 1042 (c) (2) of the Internal Revenue Code.

15 (b) *Filing claims.* For taxable years beginning after December 31, 2024, and
16 subject to the limitations provided in this subsection, a claimant may claim as a
17 credit against the tax imposed under s. 71.43 for the taxable year during which a
18 conversion to an employee stock ownership plan or a worker-owned cooperative is
19 complete, up to the amount of those taxes, either of the following:

20 1. An amount equal to the conversion costs, up to \$100,000, incurred by a
21 claimant for converting more than 50 percent ownership of a qualified business to a
22 worker-owned cooperative.

23 2. An amount equal to the conversion costs, up to \$100,000, incurred by a

1 claimant for converting more than 50 percent ownership of a qualified business to
2 an employee stock ownership plan.

3 (c) *Limitations.* Partnerships, limited liability companies, and tax-option
4 corporations may not claim the credit under this subsection, but the eligibility for
5 and the amount of the credit are based on the amounts paid by the entities under
6 par. (b). A partnership, limited liability company, or tax-option corporation shall
7 compute the amount of the credit that each of its partners, members, or
8 shareholders may claim and shall provide that information to each of them.
9 Partners, members, and shareholders may claim the credit in proportion to their
10 ownership interests.

11 (d) *Administration.* Section 71.28 (4) (e) to (h), as it applies to the credit under
12 s. 71.28 (4), applies to the credit under this subsection.

13 **SECTION 14.** 71.49 (1) (am) of the statutes is created to read:

14 71.49 (1) (am) Employee ownership conversion costs credit under s. 71.47 (12).

15 **SECTION 15.** 73.03 (78) of the statutes is created to read:

16 73.03 (78) (a) To submit an application to the U.S. secretary of labor for a
17 grant under 29 USC 3228 to establish a program designed to promote employee
18 ownership business structures, the tax credits under ss. 71.07 (12), 71.28 (12), and
19 71.47 (12), and the subtraction from income under ss. 71.05 (6) (b) 57., 71.26 (2) (a)
20 13., and 71.45 (2) (a) 25.

21 (b) The department may use a grant received from the U.S. secretary of labor
22 to enter into a contract with a 3rd party to operate a program described in par. (a).

23 **SECTION 16. Initial applicability.**

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(1) CAPITAL GAIN SUBTRACTION. The treatment of ss. 71.26 (2) (a) 13. and 71.45 (2) (a) 25. first applies to taxable years beginning on January 1, 2025.

3 (END)