



PRESS RELEASE

Confesal proposes fiscal measures to create employment

The proposal of the Confederation is made within the framework of the measures presented by CEPES to the Government on 30 September to reduce the impact of the crisis to social economy businesses

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The Spanish Business Confederation of Employee-Owned companies (Confesal) has drawn up a series of measures to enhance the maintenance and creation of employment in the sector of employee-owned companies given the current economic climate. The network of companies in which employees are the majority shareholders has always proven its capacity to resist moments of crisis and has been one of the few business sectors able to encourage economic activity, maintain and create new employment.

The radical turnabout in the unemployment rate, the growth in inflation and, in short, the significant decline in the expectations of consumers and private investors and of the public sector has led Confesal to put forward measures to lessen the impact of the destruction of the business production system, with the corresponding loss of businesses and increase in unemployment. These measures are in line with and complement the series of measures presented by Cepes to the Government on 30 September to reduce the impact of the crisis to social economy businesses.

The objectives of the Confesal proposal include, on the one hand, maintaining and increasing stable employment, and on the other, fostering the creation of businesses while maintaining existing businesses. Therefore, it is necessary to encourage employee participation as entrepreneurs in the businesses and to strengthen the capitalization and auto-financing of the same by incorporating employees as shareholders.

An instrument for business entrepreneurship

At Confesal we aim to show the utility of employee-owned companies as a valid instrument for business entrepreneurship, as they channel the investment of employee savings towards shareholdings in the company where the employee works and encourage businesses to improve the level of capitalization and competitiveness, not only in terms of self-financing but also by involving the employee in the improvement of productivity and quality, together with the absence of social conflict.



Confesal stresses the urgent requirement for the reform of the law concerning employee-owned companies dated 1997 as a necessary measure to contribute to the development of the business network of social economy in Spain, which would contribute to reducing the impact of the economic crisis in businesses, through a business model which in the last decade has resulted in the creation of 20,000 companies and 130,000 direct jobs. Therefore, we propose the reform of the law concerning employee-owned companies, but while this is getting underway, we propose measures of a tributary nature, along three main lines:

1. **Support for the investment of employee savings in employee-owned companies.** A **savings-business account** has been created for the employee of the company with a deduction of 15% of the Income tax quota; and 100% of the unemployment lump sum is exempted from this tax, in order to encourage the employee to purchase shares in the company in which they work.
2. **Support for employee-owned companies to create stable employment by means of share acquisition plans or social participation aimed at its employees.** Application of a 20% company tax rate for employee-owned companies which allocate 25% of their reserves to financing share acquisition plans for their employees.
3. **Support for self-financing of employee-owned companies through the reinvestment of profits and support for the incorporation of shareholder employees.** Profits reinvested to provide reserves aimed at financing share acquisition plans are not subject to company tax. These fiscal benefits are applied according to the proportion of employee shareholders, in relation to the total number of open ended term employees, whether shareholders or not. Freedom is applied to the amortization of fixed assets of a permanent nature.

COMMENTS: Full document of proposals is attached

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MEASURES FOR THE MAINTENANCE AND CREATION OF EMPLOYMENT IN EMPLOYEE-OWNED COMPANIES

A proposal from the Spanish Business Confederation of Employee-Owned Companies
(CONFESAL)

(Within the framework of the proposal of measures, to reduce the impact of the economic crisis in socio-economic companies, made by CEPES (Spanish Social Economy Business Confederation) for the Government on the 30 September 2008)

BACKGROUND

The present situation is characterised by the confluence and interaction of two crises: that of confidence in the financial system, after the profound effect produced in the construction sector by the bursting of the real estate bubble, and, as a consequence of this, through its rapid negative repercussions, that of the productive economy.

This process, although it originated in the United States as a consequence of the authorities' lack of control over a certain concept of investment banking and its unrestrained issue and management of financial derivatives, based on subprime mortgages; has had an extremely severe effect on the world economy, which has forced a massive intervention from European and North American Governments to avoid collapse and a global depression with unpredictable consequences in the world financial and productive system.

In Spain, the effects have become visible in a quick and severe way. The radical change in unemployment levels, the rise in inflation and, definitively, the strong deterioration of consumers', private investors' and the public sector's expectations, led Confesal to suggest measures to mitigate the effects of the destruction of the business productive system, with its corresponding disappearance of companies and destruction of employment. Therefore we suggest the following:

OBJECTIVES:

1. To maintain and increase stable employment.
2. To increase the number of new companies and maintain the existing ones.

METHODS:

1. To encourage the participation of workers, in their capacity as entrepreneurs, in the companies.



2. To increase capitalisation and self-financing of the companies by incorporating the workers into the share-holder group.

EMPLOYEE-OWNED COMPANIES AS A BUSINESS OPTION

To show the usefulness of worker-owned companies as a valid instrument for business undertakings, given that:

- They channel the workers' investment savings so that said workers acquire the status of partner in the company in which they work.
- They stimulate the companies to improve their levels of capitalisation and their competitiveness, not only in terms of self-financing, but in the implication of the worker in productivity improvement and production quality, as well as in the absence of social unrest.

Therefore we propose a reform of the law for employee-owned companies, but while it materialises we would put forward tax-based measures, along these three main lines:

1. SUPPORT FOR EMPLOYEE SAVINGS INVESTMENTS IN EMPLOYEE-OWNED COMPANIES.
2. SUPPORT FOR EMPLOYEE-OWNED COMPANIES TO CREATE STABLE EMPLOYMENT THROUGH PLANS FOR THE ACQUISITION OF SHARES OR HOLDINGS AIMED AT WORKERS.
3. SUPPORT FOR THE SELF-FINANCING OF EMPLOYEE-OWNED COMPANIES THROUGH REINVESTMENT OF BENEFITS AND SUPPORT FOR THE INCORPORATION OF WORKER PARTNERS.

These lines of action appear in the following:

PROPOSAL FOR TAX TREATMENT OF EMPLOYEE-OWNED COMPANIES AND THE EMPLOYEE WHO ARE PART OF THEM AS EMPLOYEE SHAREHOLDERS.

Article 1. Special Reserve.

1. In addition to any reserves required either by law or under the company Articles of Association, worker owned companies are required to set up a Special Reserve, setting aside, at least, 10 per cent of the net profit for any particular financial year until the amount of the Fund matches the amount of the subscribed company capital.

2. The Special Reserve fund will be used either to assist workers in becoming company shareholders, for investments in company business or to compensate any losses incurred if no other sufficient reserves are available for that purpose.

Article 2. Tax Regime eligibility requirements.

In order to qualify for tax benefits, *worker owned companies* must meet the following requirements:

1. Classification as “*Workforce owned company*¹” at the time the event on which tax is payable took place. This requirement can be complied with *a posteriori*, if at that moment in time it meets the actual requirements for classification and as long as it requests classification within 3 months from that date. The company must continue to qualify for classification continuously for at least 5 years initially from the date of incorporation or transformation in order to retain any tax benefits received relating to that period.
2. With regard to the benefits provided for under paragraph 3 of Article 3 it will additionally be necessary to have set up a Special Reserve Fund as provided for under Article 1 and to have set aside the amounts provided for thereunder.
3. Furthermore, in order for the tax rate provided for under Paragraph 4 of Article 3 to apply, the company must state within the company Articles of Association, that 25% of that Reserve Fund, once the amount of company capital has been attained, must be used to facilitate access of long term workers on indefinite period contracts, who so desire, to the company capital in accordance with a Worker share or holding Acquisition Scheme. This objective can be achieved both by increases in capital and by contributions paid in by the company to cover part of the share or holdings acquisition price.

The amount of the company contribution should not, in any event, exceed 50% of the total invested by the employee to acquire those shares or holdings.

Article 3. Tax benefits for *Worker Owned Companies*.

Any worker owned companies meeting the requirements set out under Article 2 herein will be entitled to the following tax benefits:

¹ Sociedad Laboral, en español, i.e. sociedad anónima (public) o sociedad de responsabilidad limitada (limited) con

1. The following operations are exempt from any form of Tax on Capital Gains and Documented Legal Acts (ITP and AJD) other than the basic fixed tax rate for the type of Documented Legal Acts (AJD):

- a) Any incorporation, merger, capital increase and contributions by shareholders to make good any losses incurred by *worker owned companies*,
- b) Any amendments to the company Articles of Association or transformation either to enable classification as either a Spanish Public Limited *Workforce owned company* (SAL) or Limited Liability Partnership *Workforce owned company* (SLL) or in order to adapt the company Articles of Association to this Law,
- c) Setting-up of loans, including loans in the form of debentures and bonds issued, workers' convertible bonds, where the purpose of that amount to acquire fixed assets used to carry out company business of *worker owned companies*.
- d) Any acquisition of fixed assets during the first two years of operation of a *workforce owned company*, taken either from the date of incorporation or of classification. Exemption hereunder is dependant on keeping those assets within the company holdings for 4 years from the date of acquisition.

2. They will not be required to make the part payments referred to under Article 38 of Legislative Decree 4/2004, governing the revised text for Company Taxation, with regard to the amount payable as taxation for any tax periods commencing within the first two years from the date of incorporation or classification.

3. In the situation provided for under Article 2.2 they can, additionally, benefit from the following tax incentives:

- a) Any profits re-invested into fixed assets may be discounted from the Basic Taxable amount (BI) for the tax period in which they are acquired, as long as that reinvestment into fixed assets takes place within no longer than two years from the end of that financial year. The percentage amount of that discount is calculated by dividing the total number of work hours per annum carried out by employee shareholders by the total number of work hours per annum carried out

by both employee shareholders and long term workers on indefinite period contracts.

An amount equivalent to that discount must be paid over to the Special Reserve Fund governed under Article 1 herein, either during the financial year that the discount applies or within the two following tax periods.

b) Any tangible and intangible fixed asset items may be freely set against tax due to be paid, as long as a further amount is paid into the Special Reserve Fund equivalent to the extra cost deemed discountable as part of the amount calculated within the accounts as tax deductible.

4. The tax rate applicable to *worker owned companies* meeting the requirements set down under Article 2.3 is set at 20%.

5. Whenever any shares or holdings in the company are provided to long term workers on indefinite period contracts either directly or by means of options or any other legal instrument, either free of charge or at a price below market value, these will not be deemed to be donations as long as they relate to a company payment policy set down within an employee share or holdings acquisition scheme. It must be applicable to everyone in that category and the limits for capital holdings set down under Article 1 herein apply.

The amount of any company contributions intended to facilitate the acquisition of shares or holdings by those employees will also be considered as a tax deductible cost under the same terms.

Article 4. Tax benefits for employees and investor partners

1. Any company shares or holdings or other kind of bonds providing future access to company capital distributed to long term workers on indefinite period contracts, either free of charge or at a price below market value, will not be treated as payment in kind as long as such payments meet the requirements set out under Article 4.3 herein and do not amount to more than 12,000 Euros within any one financial year.

2. Any amounts paid over by a *workforce owned company* as contributions to the acquisition of company holdings set out in the paragraph above will not be subject to Income Tax payable for the employee.

3. Discounts for investment in company capital.

1. A deduction of 15% of the sum of any amounts actually paid out during a financial year by a long term employee of a *workforce owned company* on an indefinite period contract to enable them to acquire or subscribe to shares in that company's capital or for bonds implying a future share in that capital can be applied to the amount of tax payable. Any amounts paid out by the company itself do not count towards that deduction.

2. The same discount as in the previous paragraph will be applied to anyone setting up a *workforce owned company* in the amount of the sums provided for incorporation. Neither any amounts that are already exempt because they are unemployment benefit single payment amounts nor any grants received may be included in the tax deductions amount.

In both cases, the capital shares or holdings must remain as part of the investor's assets for a minimum period of 5 years.

4. Deduction by reason of company-savings account

Tax payers listed under the paragraph above may apply to deduct amounts deposited with credit agencies, separately from any other kind of taxation, for the purposes of setting up the company or of acquiring shares or holdings or any other kind of bond allowing access to company capital in the future.

1st -That reduction is subject to fulfilling the following requirements:

b) The maximum basic taxable amount of this reduction is 12,000 Euros per annum, comprising the amounts deposited in each financial year.

c) Each tax payer may have only one company savings account,

d) Company savings accounts must be identified in the same fashion as those set down for housing-savings accounts.

2nd - The right to deduct those amounts will be forfeit:

a) If the tax payer uses the amounts deposited in the company savings-accounts for purposes other than those set down under this Law. In the

event that they are only partly used, then it will be assumed that any amounts used were the amounts first deposited.

- b) In the case of incorporation, if the *workforce owned company* loses its classification as such within a period of less than 5 years from the date of entry in the Companies Register.
- c) If those company holdings are assigned within less than the minimum period set out under paragraph b) above.
- d) If the funds are not used for the purposes set out under these provisions within a period of 5 years.

5. Loss of right to deduct

In the case of backdated loss of the right to deduct from tax governed under the two paragraphs above, or in the event that the requirements are not complied with, then the tax payer is obliged to add together the net state portion and the net autonomous or complementary portion arising during the tax year in which the requirements for the amount which were incorrectly deducted were not complied with, plus any interest payments referred to under Article 26.6 of Law 58/2003, General Taxation.”