esop PARTNERS

WHY CONSIDER AN ESOP?

Employee Stock Ownership Plans (ESOPs) can accomplish a number of objectives. They are used for succession planning, corporate financing, and as an employee benefit program. ESOPs provide **substantial benefits to the selling shareholder, the company, and the employees** as follows:

Reason #1: To buy the shares of an existing owner

- ❑ Provides a ready internal market for an otherwise illiquid asset
- ❑ Enables a business owner to sell his stock in 60-90 days
- ❑ Seller can defer or avoid taxation if certain requirements are met
- ❑ Allows flexibility to sell the company in stages, providing the owner with diversification and liquidity while retaining control of the company

Reason #2: To utilize tax advantages for company

- ❑ ESOP contributions and dividends, which are used to repay the ESOP loan, are tax deductible
- ❑ The portion of income attributable to an S Corporation ESOP is not subject to federal income taxes (and in many cases state income taxes)
- ❑ The substantial tax savings will increase cash flow
- ❑ Company also gets tax deductions by contributing shares rather than cash, which also improves cash flow

Reason #3: To borrow money (raise capital)

- ❑ Provides equity capital if the ESOP buys newly issued shares
- ❑ Obtain 100% tax-deductible debt financing for company expansion, acquiring new corporate assets, refinancing debt, and/or acquiring or merging with another company

Reason #4: To improve corporate performance

- ❑ Studies have demonstrated that ESOP companies grow 2.3% to 2.4% faster in sales, employment, and productivity than non-ESOP companies, and grow 6% to 11% faster in companies with an “ownership culture”

Reason #5: To provide an employee benefit and motivational tool

- ❑ Provides tax-deferred retirement benefits to employees without them investing their own money
- ❑ Studies have demonstrated that ESOP companies make 5% to 12% higher wages and have 2 to 3 times the retirement assets
- ❑ Aligns the financial objectives of the company with employees because employees benefit when the company stock price rises
- ❑ Improves employee productivity and morale if the ESOP is properly communicated to employees

Reason #6: To share ownership with the employees

- ❑ Gives employees an ownership stake in the company
- ❑ Allows the owner(s) to reward the employees that helped establish and build the company
- ❑ Assists in attracting and retaining talented employees

Reason #7: To preserve the company and impact on the community

- ❑ Research indicates that employee-owned firms survive longer
- ❑ Keeps employees’ jobs in the community
- ❑ Significantly increases the likelihood that a company will remain locally owned
- ❑ Directly and indirectly impacts the dollars spent in the community