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ESOP

HAVE A COMPANY TO SELL IN THE DOWN ECONOMY? THINK ESOP

Why use an ESOP?

- An ESOP can create a market for a closely held company's stock
- A selling shareholder can finance the sale to the ESOP by accepting a promissory note from the ESOP (the selling shareholder receives market rate interest)
- If a bank is willing, an ESOP can borrow all or portion of the money for the stock purchase
- An ESOP can repay the entire loan with pre-tax dollars (the ESOP sponsor deducts its entire ESOP contribution, principal as well as interest, making the entire ESOP loan repayment tax-deductible)
- 100% S corporation ESOPs do not pay any federal income tax
- An ESOP can enhance a company's cash flow for continued growth and debt reduction
- An ESOP can provide a controlled transition plan for a business (shareholders can sell all of the business in one year, or can sell portions of the business over a period of years)
- An ESOP can maximize shareholder after-tax value (shareholders of C corporations selling to an ESOP can indefinitely defer payment of capital gains tax using Section 1042 rollover)
- An ESOP provides employees with a beneficial interest in the company that helps attract, retain, and motivate them to grow the company

Who can sell to an ESOP?

- Companies in any industry
- Must be a corporation (LLCs generally will need to be restructured to corporate entity)
- Size does not matter
- Must have sufficient number of employees

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