Is your business a good candidate for an ESOP?

What is an ESOP?

An Employee Stock Ownership Plan {ESOP} is a qualified retirement plan that invests primarily in company stock of the employer. While many of the normal qualified plan rules apply, an ESOP's unique plan provisions and leveraging capabilities requires specialized consulting and administrative expertise. Providing direct ownership opportunities to your employees through an ESOP encourages motivation and retention, and provides several major tax incentives to the selling stock holders and the corporation.

Why Sell to an ESOP?

- Ownership succession planning.
- Preserve the company's legacy.
- Employee retention.

Advantages

- Employee ownership provides a significant positive effect in your community.
- A 100% ESOP owned S Corporation is able to completely avoid income taxation.
- The unrelated business taxable income rules do not apply to S Corporation stock owned by an ESOP.
- Establishing an ESOP allows you (the seller) to get paid for the stock you sell without paying the capital gains tax that would usually be paid.
- Tax savings for the company.
- Establishing an ESOP is adaptable to almost any business strategy since there are many ways to structure an ESOP.

Questions?

Watkins Ross can answer your questions and help you determine if an ESOP is the right choice for you and your firm.

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ESOP Checklist

The following checklist can serve as a general guideline to determine if your company is a good candidate to sell to an ESOP. Please complete this checklist and contact Watkins Ross to discuss.

- ❑ Company is an S or C Corporation.
- ❑ Company has sufficient debt collateral.
- ❑ Company has an established management team capable of taking over.
- ❑ Company has been successfully doing business for at least 5 years.
- ❑ Company has been experiencing steady growth.
- ❑ Company has a minimum EBITDA of about $3 million.
- ❑ Company is open to the concept of broad-based ownership.
- ❑ At least some shareholders are motivated to sell stock – for example, planning for retirement.