

Why an ESOP?

An ESOP can...	Advantages For		
	Sellers	Company	Employees
→ Provide a sustainable business succession tool	✓	✓	✓
→ Preserve legacy as independent company	✓	✓	✓
→ Attract, reward, and motivate management team/employees through ownership combined with continued employment	✓	✓	✓
Benefits at Initial Transaction:			
→ Stock sale results in favorable capital gains tax treatment for sellers	✓		
→ Sellers can elect IRC 1042 rollover and defer gain on sale of stock	✓		
→ Sellers can finance to receive secure income stream / market-competitive rate of return	✓		
→ Flexible solution whereby sellers can transition all or part of their ownership to an ESOP, either all at once or over time	✓	✓	
→ Can provide additional benefits to key management during transaction, with proper planning		✓	✓
→ Tax-deductible principal and interest payments (subject to limits), with tax savings allowing for quicker repayment of financing and more robust increases in ESOP stock values	✓	✓	✓
→ Private and confidential transaction, with higher certainty of closure and less expenses than a typical third party sale	✓	✓	✓
Ongoing Benefits:			
→ Can create an income tax-free entity with a 100% ESOP-owned S-corporation since an ESOP is a tax-exempt trust		✓	✓
→ ESOP companies have higher employee motivation, satisfaction, and productivity, and lower employee turnover		✓	✓
→ Provides employees with retirement benefit similar to a 401(k) plan, but employees have an opportunity to influence plan performance		✓	✓
→ ESOP companies outperform non-ESOP companies on average		✓	✓
→ Tax-advantaged financing can be used as an acquisition tool		✓	✓
→ ESOP stock returns outperform the stock market, on average		✓	✓
→ Dividend shares on ESOP shares are typically tax deductible		✓	✓



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