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## *Employee Stock Ownership Plans*

### *Understanding ESOPs and Their Use in Exit Planning Strategies*

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#### INTRODUCTION

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## *Understanding ESOPs & Their Use in Exit Planning*

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#### INTRODUCTION

- **Employee Stock Ownership Plans (ESOPs)**
  - *Qualified retirement plans invested primarily in the stock of the companies that adopt and sponsor them*
  - *Employees share in capital appreciation of company*
  - *Use governed by IRC and ERISA*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP MECHANICS

#### ▪ Benefits to Shareholders and the Company

- *Provides ready market to sell shares, and serves as effective means for exiting the Company for controlling shareholders*
- *ESOP can be used in many capacities for corporate finance and as means to generate cash flow*
- *Provides significant tax benefits to the Company*
- *Incentive for recruiting/retaining employees as well as a way to increase employee morale and productivity*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP MECHANICS

#### ▪ Benefits to Employees

- *Employees acquire beneficial ownership in the Company without having to invest their own money*
- *Employees are able to acquire ESOP stock without paying current income tax on the stock*
- *Growth of employees' interest not subject to tax until distribution*
- *Employees share in current and future economic rewards of Company ownership*

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## *Employee Stock Ownership Plans*

### *Understanding ESOPs and Their Use in Exit Planning Strategies*

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#### ESOP OVERVIEW

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## *Understanding ESOPs & Their Use in Exit Planning*

### ESOP OVERVIEW

- **Fundamentals**
  - *Company sets up a trust and makes annual contributions*
  - *Contributions are allocated to employees' accounts*
  - *Allocations to employees' accounts are subject to vesting*
  - *Employees given options to diversify at different times*
  - *Various options for distributions*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP OVERVIEW

#### ▪ Tax Incentives

- *Enacted by Congress to encourage creation of ESOPs*
- *Incentives make ESOPs attractive as employee benefit plans, techniques of corporate finance, and as tools for business and estate planning*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP OVERVIEW

#### ▪ Uses for ESOPs

- *Provide liquidity and diversification for shareholders*
- *Provide a means of capital formation*
- *Finance corporate acquisitions*
- *Incentive to increase productivity and retain personnel*
- *Provide a succession plan for current owners*
- *Provide liquidity in divorce situations*
- *Provide negotiating leverage for any proposed transaction*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP OVERVIEW

#### ▪ Alternatives to ESOPs

- *Sell or transition the business to family members*
- *Sell to management or key employee*
- *Sell or merge with a third-party  
(financial buyer or strategic or investment buyer)*
- *Sell stock through IPO*
- *Liquidate the business*
- *Sell to an ESOP*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP OVERVIEW

#### ▪ Basic Features of ESOPs

- *Tax qualified, defined contribution, deferred compensation  
employee benefit plans*
- *Intended to be “primarily invested” in stock of Company*
- *Funding may originate from a number of sources*
- *ESOT owns shares for the benefit of Plan participants*
- *Plan participants and Trustee have voting rights*
- *ESOP companies often have multiple benefit plans*

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP OVERVIEW

#### ▪ Common ESOP Misconceptions

- *ESOP is primarily an employee benefit plan*
- *ESOP buyout requires owners to sell 100% of their stock*
- *Selling stock to ESOP results in a loss of control by owner*
- *Owner can get a higher price selling to a third party*
- *ESOP creates a “repurchase liability” that can jeopardize the continued existence of the business*
- *ESOP must be 100% invested in shares of company stock*

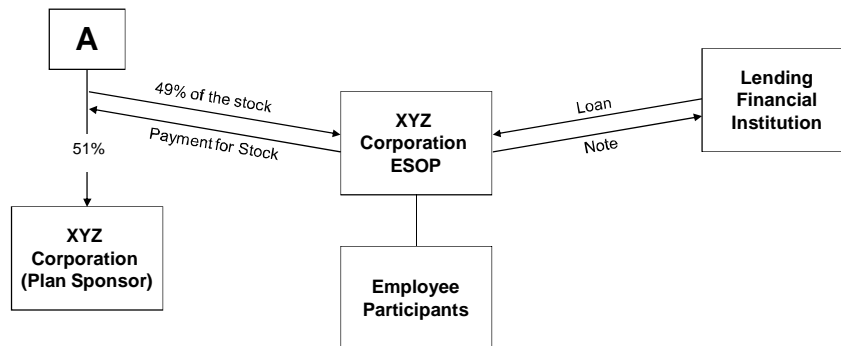
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## Understanding ESOPs & Their Use in Exit Planning

### ESOP OVERVIEW

#### ▪ Alternative Leveraged ESOP Structures – Alternative 1



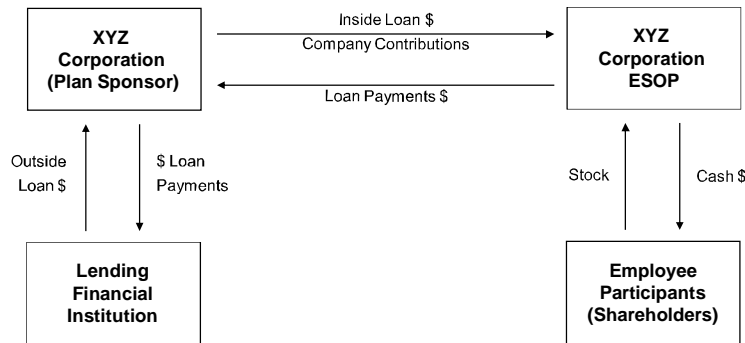
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## *Understanding ESOPs & Their Use in Exit Planning*

### ESOP OVERVIEW

#### ▪ Alternative Leveraged ESOP Structures – Alternative 2



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## *Employee Stock Ownership Plans*

### *Understanding ESOPs and Their Use in Exit Planning Strategies*

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#### TAX CONSIDERATIONS

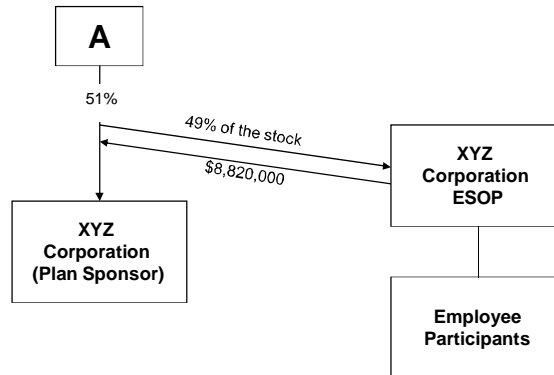
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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Inception



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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Benefits to A

- *Can sell any % of the Company to the ESOP for “adequate consideration”*
- *Will defer tax as long the ESOP owns at least 30% of the Company after the sale (section 1042)*
- *To get deferred tax treatment, must invest the proceeds in qualified domestic replacement securities (can choose amount to be taxed)*

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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Benefits to A

- *Can maintain control of the Company and continued equity in the Company*
- *Can continue to receive salary*
- *Will receive greater investment income since no tax will be paid and more will be invested*
- *Immediately achieves a more diversified portfolio*

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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ ESOP with ESOT

- *Company establishes Employer Stock Ownership Trust (ESOT) with the ESOP, which is a qualified, defined contribution, employee benefit plan*
- *ESOT holds shares as the beneficial owner for the employees' retirement account, to be allocated to the employees over time*
- *Contributions are allocated to individual employee accounts*
- *Diversification for employees can be achieved at a certain age*

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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Tax Benefits to Company

- *XYZ Corp can take federal and PA corporate tax deductions for both the interest and principal payments on loans borrowed to fund the purchase of A's shares*
- *Annual contributions to the plan are tax-deductible*
- *Cash contributions are deductible*
- *Dividends paid in cash on shares held by an ESOP can be tax deductible by sponsoring corporation*

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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Tax Benefits to Company

- *Cash dividends passed through to ESOP employees are tax deductible for the Company*
- *Because an ESOP is an employee benefit plan, it can serve to attract, retain and motivate quality employees*
- *ESOPs can qualify as shareholders in an S corporation*
- *In an S corporation, percentage of ownership held by ESOP is not subject to income tax at the federal level*

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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Tax Benefits to Employees

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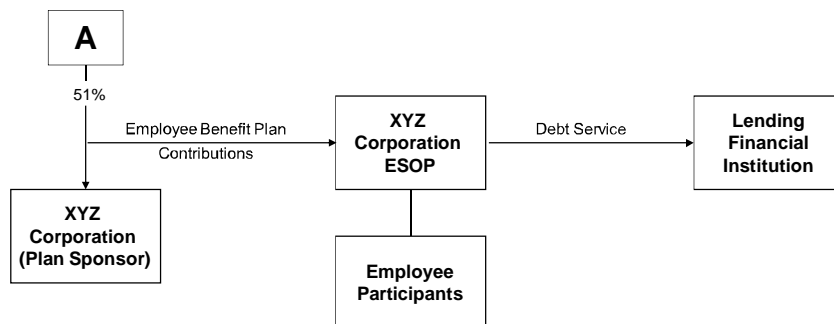
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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Annual



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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

- **C Corporations vs. S Corporations**

- *Attributes of C corporations*
- *Attributes of S Corporations*
- *Tax incentives differ for each*

(refer to chart on page 26 of handout materials)



## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

- **Tax Incentives Related to ESOPs**

- *Tax deductible contributions to the ESOP*
  - C corporations
  - S corporations
- *Contributions to an ESOP based on dividends (C vs. S corps)*
  - C corporations
  - S corporations



## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Tax Incentives Related to ESOPs

##### – *IRC Section 1042 Tax-free Rollover for C corporations*

- Various criteria must be met to qualify
- Proceeds invested in Qualified Replacement Property (QRP)
- Restrictions and limitations apply

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## Understanding ESOPs & Their Use in Exit Planning

### TAX CONSIDERATIONS

#### ▪ Tax Incentives Related to ESOPs

##### – *Non-taxable income related to ESOP stock for S corporations*

- S corporation is a “pass-through” entity – taxable income is passed through to shareholders who pay Federal taxes on it
- ESOP, as qualified retirement plan, has no Federal income tax liability – participants pay income tax on distributions
- S corp that is 100%-owned by ESOP pays no Federal income tax
- Assets in ESOP increase free of income taxes until withdrawal

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### TAX CONSIDERATIONS

■ **Comparing a C Corp and S Corp (100% ESOP)** – (pg 24)

	<u>C Corporation</u>	<u>S Corporation</u>
Pretax income before ESOP payment	\$ 1,200,000	\$ 1,200,000
Less: ESOP contribution	200,000	200,000
Pre-tax income	\$ 1,000,000	\$ 1,000,000
Federal income taxes (at 35%)	350,000	0
Net income to Retained Earnings	\$ 650,000	\$ 1,000,000
Distribution to all shareholders – None	0	0
Retained by Company	\$ 650,000	\$ 1,000,000

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## *Employee Stock Ownership Plans*

### *Understanding ESOPs and Their Use in Exit Planning Strategies*

#### ESTABLISHING AN ESOP

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## Understanding ESOPs & Their Use in Exit Planning

### ESTABLISHING AN ESOP

#### ▪ Initial Considerations

- *Address feasibility issues and design specifics*
- *Requires valuation, consideration of repurchase obligation*
- *Financial goals to be integrated with regulations, obligations*
- *ESOP advisor, attorney, accountant and other professionals should be consulted in planning process*

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## Understanding ESOPs & Their Use in Exit Planning

### ESTABLISHING AN ESOP

#### ▪ Implementation

- *Attorney prepares a formal plan document*
- *Appraiser provides formal evaluation report*
- *Administrative concerns should be addressed*
- *Arrangements made to secure financing for transaction*
- *Documents must be formally adopted and submitted to IRS*

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## ***Understanding ESOPs & Their Use in Exit Planning***

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### **ESTABLISHING AN ESOP**

#### ▪ **Reporting Requirements**

- *FASB ASU2011-04, Fair Value Measurement – companies must disclose any significant methodologies and assumptions used in the fair value determination of non-publicly-traded company securities*
- *Effective December 2011 – required disclosures would appear in a footnote to the ESOP audit report, which is filed with Form 5500*
- *April 2013 – FASB gave ESOP companies an indefinite deferral on disclosure of quantitative information*

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## ***Employee Stock Ownership Plans***

### ***Understanding ESOPs and Their Use in Exit Planning Strategies***

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#### **UNDERSTANDING THE NEED FOR A FEASIBILITY STUDY**

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## ***Understanding ESOPs & Their Use in Exit Planning***

### UNDERSTANDING NEED FOR A FEASIBILITY STUDY

- **Conducted to determine whether ESOP will achieve set goals**
- **Form and scope can vary widely**
- **Ultimate goal – to prevent expensive errors and future mistakes**
- **Numerous important questions should be addressed to look at the potential effects of implementation of the plan**
- **Facilitating debt service requirements is key**

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## ***Understanding ESOPs & Their Use in Exit Planning***

### UNDERSTANDING NEED FOR A FEASIBILITY STUDY

- **Criteria to facilitate the most-advantageous use of an ESOP**
  - *Participating workforce of 20 employees or more*
  - *Strong historical growth in profits*
  - *Expected future revenue of \$2,000,000 or more*
  - *Specifically-motivated current stockholders (diversity and succession) and*
  - *Future management acceptance*

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## Understanding ESOPs & Their Use in Exit Planning

### UNDERSTANDING NEED FOR A FEASIBILITY STUDY

- **Primary aspects of full feasibility study:**
  - *Preliminary valuation*
  - *Financial analysis*
  - *ESOP transaction formation assessment*
  - *Repurchase obligation liability impact*

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## Understanding ESOPs & Their Use in Exit Planning

### UNDERSTANDING NEED FOR A FEASIBILITY STUDY

- **Other considerations in feasibility studies:**
  - *Disclosure memorandum must be provided to employees*
    - Distributed 30 days prior to participation decision due date
    - Information must be communicated in a way that is easy for employees to understand and make informed decision
  - *Feasibility study should be reviewed and updated throughout the formation process*

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## *Employee Stock Ownership Plans*

### *Understanding ESOPs and Their Use in Exit Planning Strategies*

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#### UNDERSTANDING REPURCHASE OBLIGATION LIABILITY

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## *Understanding ESOPs & Their Use in Exit Planning*

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### REPURCHASE OBLIGATION LIABILITY

- **IRC and DOL regulations**
  - *Require sponsor Company to repurchase shares of stock from participants receiving distributions – through a “put” option*
    - Participants can put shares back to sponsor company in exchange for cash consideration
    - Right to sell is guaranteed to participant but not required
  - *Also provide opportunity for participants to diversify stock*

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## *Understanding ESOPs & Their Use in Exit Planning*

### REPURCHASE OBLIGATION LIABILITY

- These put and diversity rules, referred to together as the “repurchase obligation liability,” require Company cash flow
- Considered “off balance sheet” liability that changes over time
- Rules do not guarantee that Company will have economic capacity to fulfill the requirements
- Must consider impact on future Company performance

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## *Understanding ESOPs & Their Use in Exit Planning*

### REPURCHASE OBLIGATION LIABILITY

- Demographics of sponsor Company’s employee population as well as the specific plan provisions relating to vesting and distribution will influence the size and timing of liability
- Accelerating distribution schedule increases repurchase obligation liability – important to consider alternatives in the plan design phase of process

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## Understanding ESOPs & Their Use in Exit Planning

### REPURCHASE OBLIGATION LIABILITY

- Calculation of size and timing predicated upon three factors:
  - *Fair market value of stock (must be valued annually)*
  - *Speed with which sponsor Company turns stock over*
  - *Manner in which the “put” is handled by sponsor Company*



## Understanding ESOPs & Their Use in Exit Planning

### REPURCHASE OBLIGATION LIABILITY

- Fair market value of stock
  - *The higher the value, the higher the liability*
  - *Not necessarily an operating concern as higher stock value indicates financial strength*



## Understanding ESOPs & Their Use in Exit Planning

### REPURCHASE OBLIGATION LIABILITY

- **Turnover speed of sponsor Company stock**
  - *Care should be taken at inception of plan to consider effects of employee demographic and turnover*
  - *Vesting and forfeiture reallocation provisions should be designed to control the liability as much as possible*

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## Understanding ESOPs & Their Use in Exit Planning

### REPURCHASE OBLIGATION LIABILITY

- **How sponsor Company handles repurchase provisions**
  - *Two primary methods for repurchase of stock:*
    - Stock redemption – sponsor Company distributes stock to participant then buys it back
    - Recirculation of shares – sponsor Company contributes cash to ESOP, which is then distributed to departing participant

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## Understanding ESOPs & Their Use in Exit Planning

### REPURCHASE OBLIGATION LIABILITY

- **Stock redemption**
  - *Amounts paid for stock are not tax deductible*
  - *Reduces outstanding shares and, thus, reduces liability*
- **Recirculation of shares**
  - *Tax deductible if compliant with pension contribution rules*
  - *Holds shares constant*

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## Understanding ESOPs & Their Use in Exit Planning

### REPURCHASE OBLIGATION LIABILITY

- **Repurchase obligation liability studies**
  - *Can be done internally or conducted by independent expert*
  - *Process generally divided into distinct steps:*
    - Gather data on plan participants and review demographics
    - Identify and develop certain financial assumptions
    - Run repurchase obligation liability at “base case” level
    - Additional alternative scenarios can also be calculated

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## ***Understanding ESOPs & Their Use in Exit Planning***

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### REPURCHASE OBLIGATION LIABILITY

- **In Summary**

- *Repurchase obligation liability study essentially is a cash flow projection*
- *Devil is in the details*
- *Consideration of repurchase obligation liability and valuation are interdependent*

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### ESOP VALUATION CONSIDERATIONS

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

- **ESOP fiduciaries should appoint valuers that:**
  - *Are qualified,*
  - *Are independent, and*
  - *Meet requirements of both IRS and ERISA*



## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

- **ESOP Valuation Fundamentals**
  - *DOL requires “adequate consideration”*
  - *Valuator must consider factors that are specifically applicable to ESOPs*



## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Identification of valuation subject*

- Total of all stock held by ESOP
- Can have a control interest valuation

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Level of value*

- Liquidity – how quickly and easily the appraisal subject can be converted to cash?
- Ownership control – can the owner of the subject influence employer corporation's policies and operations?

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Contractual rights and restrictions*

- Put options, call options, shareholder buy-sell agreement provisions, S corporation tax election agreements, etc.
- State corporation rights

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Standard of value*

- Under DOL rules and ERISA, standard of value is “adequate consideration”
- Fair market value

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Premise of value*

- Value in continued use, as a going concern
- Value in place, but not in current use, in the production of income
- Value in exchange – orderly disposition, voluntary and involuntary liquidation

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Valuation date*

- “As of” date
  - Contemporaneous
  - Retrospective
  - Hypothetical
- Value can change materially over time due to internal and external influences

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Report date*

- Date work is completed and report is issued
- A matter of fact

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *User of the analysis*

- Valuations should specify:
  - Party that retained the valuator
  - Any and all parties who may rely on conclusion of value
- Intended use should be specified

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *Repurchase obligation liability*

- Also known as put option requirement
- Requirement of the sponsor corporation to buy back shares of stock
- Considers annual valuation and employee census data

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

##### – *A variety of methods can be used to reflect the repurchase obligation liability in value of sponsor Company's stock*

- Increase the amount of projected future working capital to reflect the repurchase liability
- Increase the discount rate used in the Income Approach
- Moderate future growth rates

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

- *A variety of methods can be used to reflect the repurchase obligation liability in value of sponsor Company's stock*
  - Reduce the earnings multiple used in the Market Approach
  - Increase the discount for lack of marketability
  - Make adjustments to historical and/or projected employee benefit expenses

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## Understanding ESOPs & Their Use in Exit Planning

### ESOP VALUATION CONSIDERATIONS

#### ▪ ESOP Valuation Fundamentals

- *Marketability*
  - Inability to quickly liquidate
  - Lack of empirical data

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## *Employee Stock Ownership Plans*

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#### EXAMPLES

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## *Understanding ESOPs & Their Use in Exit Planning*

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#### EXAMPLES

- **Economic Impact for Selling Shareholder**
  - *100% ownership of AXIS Corporation, a C corporation in PA*
  - *Owner considering sale of business*
  - *Fair market value of AXIS estimated at \$10,000,000*
  - *3 alternative transaction scenarios considered*
  - *AXIS' basis in assets is \$2,000,000*
  - *Owner's basis in stock is zero*

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## *Understanding ESOPs & Their Use in Exit Planning*

### EX. I – ANALYSIS OF TAXABLE ASSET AND STOCK SALE vs. ESOP

	<u>Sale of Assets</u>	<u>Sale of Stock</u>	<u>ESOP</u>
Corporation Calculation			
Net Proceeds	\$ 13,500,000		
Corporate Basis in Assets	(2,000,000)	-	-
Corporate Level Gain	11,500,000		
Tax at 40%	4,600,000	-	-
Proceeds after Corporate Tax	<u>\$ 8,900,000</u>		
Individual Calculation			
Shareholder Proceeds	\$ 8,900,000	\$ 11,500,000	\$ 10,000,000
Shareholder Basis	-	-	-
Shareholder Level Gain	8,900,000	11,500,000	10,000,000
Tax at 20%	(1,780,000)	(2,300,000)	-
NET CASH TO OWNER	<u>\$ 7,120,000</u>	<u>\$ 9,200,000</u>	<u>\$ 10,000,000</u>

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## *Understanding ESOPs & Their Use in Exit Planning*

### EX. I-A – ANALYSIS OF INVESTMENT RETURN OVER 20 YEARS

	<u>Sale of Assets</u>	<u>Sale of Stock</u>	<u>ESOP</u>
NET CASH TO OWNER	<u>\$ 7,120,000</u>	<u>\$ 9,200,000</u>	<u>\$ 10,000,000</u>
Principal Balance at the End of 20 Years	<u>\$ 15,824,784</u>	<u>\$ 20,447,155</u>	<u>\$ 22,225,821</u>

Assuming 4% return compounded monthly

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## Understanding ESOPs & Their Use in Exit Planning

### EXAMPLES

- **Exhibits I & I-A**
  - *Tax deferral from ESOP is powerful economic tool*
  - *If proceeds are invested in qualified securities, investment earnings can be significant*
  - *Economic power of compounding attributes on investor returns after receipt of tax proceeds must be considered*

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## Understanding ESOPs & Their Use in Exit Planning

### EXAMPLES

- **Selling Partial Interest to an ESOP**
  - *After considering the various options previously discussed, the owner is recognizing the benefits of an ESOP transaction*
  - *Owner plans to sell 30% of his shares to the ESOP in the initial transaction and remain in his current position*
  - *After original debt is satisfied, he will consider another sale of additional interest*

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## Understanding ESOPs & Their Use in Exit Planning

### EXAMPLES

- **Selling Partial Interest to an ESOP**

- *Assume that 30% interest is valued at \$3,000,000,*
- *Annual debt service is approximately \$510,000, which includes principal and interest*
- *Compensation qualifying for pension contributions valued at \$3,000,000 with maximum allowable contribution to the plan of \$750,000 (25% of qualifying compensation)*

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## Understanding ESOPs & Their Use in Exit Planning

### EX. II – TAX SAVINGS ASSOCIATED WITH ANNUAL PENSION CONTRIBUTIONS

	Annual	Total
PENSION CONTRIBUTIONS	\$ 510,000	\$ 3,570,000
Effective Tax Rate	40%	40%
Tax Savings	204,000	1,428,000
<b>NET COST TO COMPANY</b>	<b>\$ 306,000</b>	<b>\$ 2,142,000</b>
Normal Debt Comparison		
Interest - Total		\$ 570,000
Effective Tax Rate		40%
Tax Savings		228,000
Gross Principal Cost		3,000,000
<b>NET COST TO COMPANY</b>		<b>\$ 3,228,000</b>

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## Understanding ESOPs & Their Use in Exit Planning

### EXAMPLES

- **Exhibit II**

- *“Net” after-tax cost of contributing pension payments to the ESOP to meet debt service illustrates the benefit of the ability to deduct both principal and interest*

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## Understanding ESOPs & Their Use in Exit Planning

### EXAMPLES

- **Assessing ESOP Permanent Deferral of Income Tax**

- *Potential tax savings through IRC section 1042 deferral*
- *Avoid income taxes by investing in QRP*
- *Because of time-value of money concept, benefit is not as significant as may be expected*
- *Economic benefit increases with age of selling shareholder*

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## Understanding ESOPs & Their Use in Exit Planning

### EX. III – INCOME TAXES vs. ESTATE TAXES

Gain on Sale of Stock to the ESOP	<u>\$ 3,000,000</u>
Date of Transaction Tax Liability (Deferred)	600,000
Estate Tax Rate (estimated)	<u>35%</u>
Estimated Estate Tax	210,000
Net Benefit of Permanent Deferral	<u>\$ 390,000</u>
Present Value at 4% at 25 Years	<u>\$ 146,296</u>

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## Understanding ESOPs & Their Use in Exit Planning

### EXAMPLES

- **Summary**
  - *Many substantial economic and non-economic reasons to use ESOPs to achieve Company goals*
  - *Many benefits are case-specific, so thorough planning and feasibility process should be undertaken prior to adoption*

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## *Employee Stock Ownership Plans*

### *Understanding ESOPs and Their Use in Exit Planning Strategies*

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#### CONCLUSION AND PRACTICAL CONSIDERATIONS

Attorney CLE Series – October 10, 2013



## *Understanding ESOPs & Their Use in Exit Planning*

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#### CONCLUSION AND PRACTICAL CONSIDERATIONS

- ESOPs provide many tax and economic benefits to companies, owners and employees
- Possibility of using ESOP should not be dismissed without undertaking a feasibility study
- Value provided can justify the expenses and administrative costs involved in establishing and ESOP

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