

PROGRAM: Employee Stock Ownership Plan (ESOP)

DESCRIPTION: An ESOP is classified as an employee benefit plan that can be used for corporate debt financing.

ELIGIBLE USE:

- ESOPs are empowered to fulfill many different financing roles for a business:
 - Buy out shareholders,
 - Finance capital expansion,
 - Refinance existing debt,
 - Sell off divisions,
 - Acquire new operations, and
 - Take a company private.
- ESOPS may also be used to save a failing business or avert a plant closing.

PROGRAM/LOAN STRUCTURE:

- The financial and tax advantages to the business and employees of structuring an ESOP include:
 - Employer tax deduction - up to 25% of participants' payroll can be claimed as a deduction to pay principal on an ESOP loan, all interest payments are deductible,
 - Employee tax deferral - annual amounts that the business can allocate tax-free to each participants account; usually cannot exceed the lesser of 25% of salary or \$30,000,
 - Lender interest exclusion - lenders may exclude 50% of interest earned on ESOP loans from taxable income,
 - Deferral or roll-over gain on sale - sellers who sell their business to another business where at least 30% of the stock is held by an ESOP can defer any tax on gains if sale proceeds are reinvested within 12 months in securities of another operating business,
 - Dividend deductions - companies can deduct dividends paid on ESOP-held stock as long as dividends are used to repay an ESOP loan or paid to employees,
 - 50% estate tax exclusion - an estate selling stock to an ESOP can exclude 50% of the value received from sale for estate tax purposes,
 - Excise tax exclusions - ESOPs are not subject to excise tax charged on distributions, and
 - Excess assets tax - ESOPs are exempted from paying a tax on excess assets received from terminated benefit plans.

QUALIFICATION CRITERIA/COMMENTS:

- ESOPs are comprised of individual employee accounts into which are deposited either stock or the money used to purchase stock.
- The business accounts are managed by an Employee Stock Ownership Trust (ESOT) directed by banks, major shareholders or other authorized personnel, who are responsible for operating the ESOT for the benefit of plan participants.
- For information on how ESOPs work, visit <http://www.nceo.org/library/esops.html>
- For information on how to set up an ESOP, visit <http://www.nceo.org/library/steps.html>
- For information in general visit http://www.nceo.org/esops/esop_articles.html

