

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

experience **direction** // Establishing a succession plan that is beneficial to you and your employees is vital. You need guidance. **We can help.** You may be aware of more traditional methods of transferring ownership, such as selling to a third party; however, selling to an employee stock ownership plan (ESOP) may be the right solution for your company. An ESOP allows you to retain control of the business and protects the employment of valued workers, creating a win-win situation for your company and your employees. **Experience how our insight can help you create value.**



WHAT IS AN ESOP?

An ESOP allows you to sell all or a portion of your investment in the company, while retaining business continuity and control of business decisions and operations. An ESOP is a qualified retirement plan that allows eligible employees to receive an annual allocation of stock. Stock acquired by an ESOP is legally held in an ESOP trust, and employees are simply beneficial owners in the value of the stock. Employees do not legally own the stock and they may only vote in a few major events, such as the sale of company assets, mergers, etc. An ESOP does not necessarily change the operations or management of the company.

ESOP TAX BENEFITS

Because of certain tax benefits, the ESOP purchase is essentially funded with pre-tax dollars. One advantage with leveraged ESOPs (those that borrow funds to purchase securities), is that principal payments made on the acquisition debt are tax deductible. Further, S corp earnings attributable to an ESOP are exempt from federal and state income taxes (except in states that do not recognize S corp status). A company that is 100 percent ESOP-owned and taxed as an S corp is exempt from federal and most state income tax, regardless of profitability.

An ESOP provides a market to sell your stock at fair value, which generally results in greater tax advantages than you would receive by selling company assets. Further, if certain requirements are met, the sale of your stock may be tax-deferred or possibly tax-free. (You must reinvest in a qualified replacement property within 12 months from the sale date.)

EXISTING ESOP COMPANIES

Existing ESOP companies face unique opportunities and challenges. Many mature ESOPs have benefited from acquisitions, realizing higher returns than non-ESOP companies through enhanced tax savings from future profits. These companies can also provide the sellers unique tax advantages, providing additional leverage during the negotiation process.

As ESOP companies mature, it is important to continuously monitor the structure of the ESOP and to adapt to legislative changes, repurchase liability issues and employee benefit issues. Mature ESOPs also need to evaluate available executive compensation plans so they can retain and attract top talent, an element critical to the company's success.

2600 CPAS, ADVISORS & STAFF

Work face to face with one of approximately 2,600 CPAs, advisors and dedicated staff, and **experience round-the-clock commitment** to ideas that help improve performance.

WHY CHOOSE BKD?

BKD understands privately owned businesses and the unique succession issues they face. During the past decade, BKD's ESOP advisory group has acted as the principal coordinator in closing more than \$2.7 billion in leveraged ESOP transactions. We work with some of the largest 100 percent ESOP-owned S corps in the country, providing accounting, tax and advisory services ranging from acquisition assistance to executive compensation design. BKD also stays abreast of legislative changes that could affect ESOPs, advising companies about the potential impact to their organization.

BKD'S ESOP SOLUTIONS INCLUDE

- Performing ESOP feasibility and structure analysis
- Assisting in coordinating ESOP transactions
- Communicating ESOP benefits to employees
- Helping design executive compensation plans
- Evaluating and restructuring existing ESOPs
- Analyzing potential acquisition opportunities
- Analyzing repurchase liability
- Providing ESOP recordkeeping and compliance services



FOR MORE INFORMATION // For a complete list of our offices and subsidiaries, visit bkd.com or contact:



Angela Fisher // Manager
afisher@bkd.com // 270.781.0111



Cara Benningfield // Partner
cbenningfield@bkd.com // 270.781.0111

ESOP CASE STUDY

A regional grocery store chain considered selling its 40 traditional supermarkets and consulted BKD on the best way to complete the transaction. The solution: an ESOP.

BKD helped management assess the feasibility of an ESOP, assisted with its structure, assisted with prospective financial statements for lenders and the appraiser, helped negotiate with lenders and communicated ESOP benefits to employees.

"Our BKD advisor was the mastermind of our ESOP and was just unbelievable in terms of spearheading the deal and getting it done," says the CEO of the supermarket chain. "We

owe a lot to the BKD team. BKD came in and got the job done."

Since the successful transition to an ESOP, the company has significantly diversified its holdings through acquisitions and is now engaged in a number of diverse business activities, including retail/food services, manufacturing, distribution, financial services, insurance and construction.

With more than 10,000 employees, the company has grown to become one of the largest 100 percent ESOP-owned companies in the country.

1:6 PARTNER:STAFF



With a partner-to-staff ratio lower than the average for national firms, you'll have access to partners and **experience personal communication.**

BKD THOUGHTWARE® // articles // emails // presentations // videos // webinars

bkd.com