

SUMMARY OF ESOP USES

An ESOP is a very flexible financial and equity incentive instrument that uses **tax-deductible dollars** to achieve a variety of individual and corporate objectives, as outlined below:

- A. Provide a market (at fair market value) for partial or complete sale by existing shareholders with a “**tax-free** rollover” treatment if ESOP ownership is 30% or greater.
- B. Make **tax-deductible** contributions and loan principal and interest payments via the ESOP. (Professional Service Companies’ contributions and loan payments may be reimbursable.)
- C. Provide for the **acquisition** or **divestiture** of a company or division using **pre-tax** funds.
- D. Income attributable to S Corporation stock owned by an ESOP is not subject to federal tax.
- E. Allow **tax deduction** for **dividends** paid to employees, or used to repay ESOP debt.
- F. **Convert** an existing Profit Sharing (or Money Purchase) Plan into an ESOP whereby the funds can be made available for the purchase of new company shares and/or existing stock.
- G. Raise **working capital** by selling newly issued stock to a leveraged ESOP, or **refinance existing debt** by contributing stock to the ESOP and deducting the full value of the contribution.
- H. Recapture up to 3 years’ prior federal taxes paid.
- I. Other applications include **privatization, perpetuation, an IPO alternative, charitable giving, going private**, and **401(k)/ESOP combination** plans.

ESOP SERVICES, INC. specializes in all aspects of Employee Stock Ownership Plans, including ESOP privatization. With clients in most of the 50 states and internationally (and in a broad diversity of industries), ESI emphasizes the financial aspects of ESOP use, as well as coordination of the many components needed to establish and maintain a successful ESOP.

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