



Highlights of Major ESOP Tax Shields

A. “Tax-Free” Rollover of Stock Sold to the ESOP

Shareholders of closely-held companies may sell their stock to the ESOP and under certain circumstances, pay no tax provided that the proceeds are reinvested in the securities of operating, domestic, public or private corporations within twelve months after (or three months before) the sale to the ESOP. The stock which is sold cannot be “Section 83” stock, and must be held for a three-year period prior to the sale to the ESOP.

B. Tax-Deductible Loan Payments

Loan principal is tax-deductible to the corporation when the corporation makes ESOP contributions that are used to repay ESOP debt.

C. Tax-Free S Corporation Income

Income attributable to stock owned by an S Corporation ESOP is not subject to federal tax. For smaller companies, this benefit may not be available.

D. Tax-Deductible Dividends When Paid Through the ESOP

Dividends on ESOP stock “passed through” the ESOP to participants or used to repay ESOP loans may be tax-deductible to the corporation. These dividends are *not* counted in the normal contribution limit of 25% of payroll.