NCEO
NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

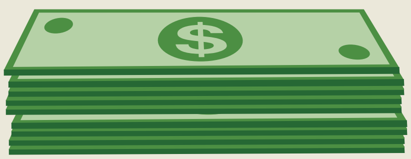
What Is an ESOP?

The Benefits of Selling to an ESOP

An ESOP can use pretax future corporate earnings to buy shares from an owner.

Sellers can defer taxation on the gain depending on the type of corporation.

The business will also receive numerous tax benefits depending on the type of corporation.



Sell the business at once or gradually in installments.

Sellers can define their role in the company moving forward.

Protects jobs.

Provides employees with a significant retirement benefit.

Protects the integrity of the business by assuring that it will not be dismantled.

Financial Benefits
Flexibility
Rewarding Employees

Employee stock ownership plans, or ESOPs, are a way to sell a business that benefits the company, employees, and the selling business owners. Business owners sell some or all of their shares to an ESOP trust, which owns those shares on behalf of employees.

ESOPs can be funded in many ways, but usually the transaction involves a loan. The company can take out a loan and then reloan the funds to the ESOP trust. The company makes contributions to the trust, which the trust uses to repay the loan. Sometimes the person selling the shares provides the loan. Almost all ESOPs are completely company-funded. Employees pay nothing.

As the loan is repaid, shares become available to allocate to employee accounts. The allocations must be made on a non-discriminatory basis, like payscale or a more level formula. With limited exceptions, all employees participate in the plan.

The company administers the plan in accordance with federal laws and regulations that govern issues such as contribution and allocation limits, vesting, benefit distributions, diversification, and more.

ESOP companies often have ownership cultures that encourage employees to “think and act like owners.” Research shows such companies are more productive, faster growing, more profitable, have less turnover, and generate more wealth.