

ESOPs & Succession Planning

for

ABC Company

Presented by

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ESOPs

- ❑ Qualified Retirement Plan
- ❑ Special ESOP Incentives
- ❑ Mechanics
- ❑ Valuation

Qualified Retirement Plan

- **Participation**
 - Entry & Eligibility Requirements
- **Benefit**
 - Eligibility Requirements
 - Contributions = Deduction (Limits)
 - Dividends/Earnings = Deduction
 - Allocation Limits (Old law/New law)
- **Vesting**
 - Schedule

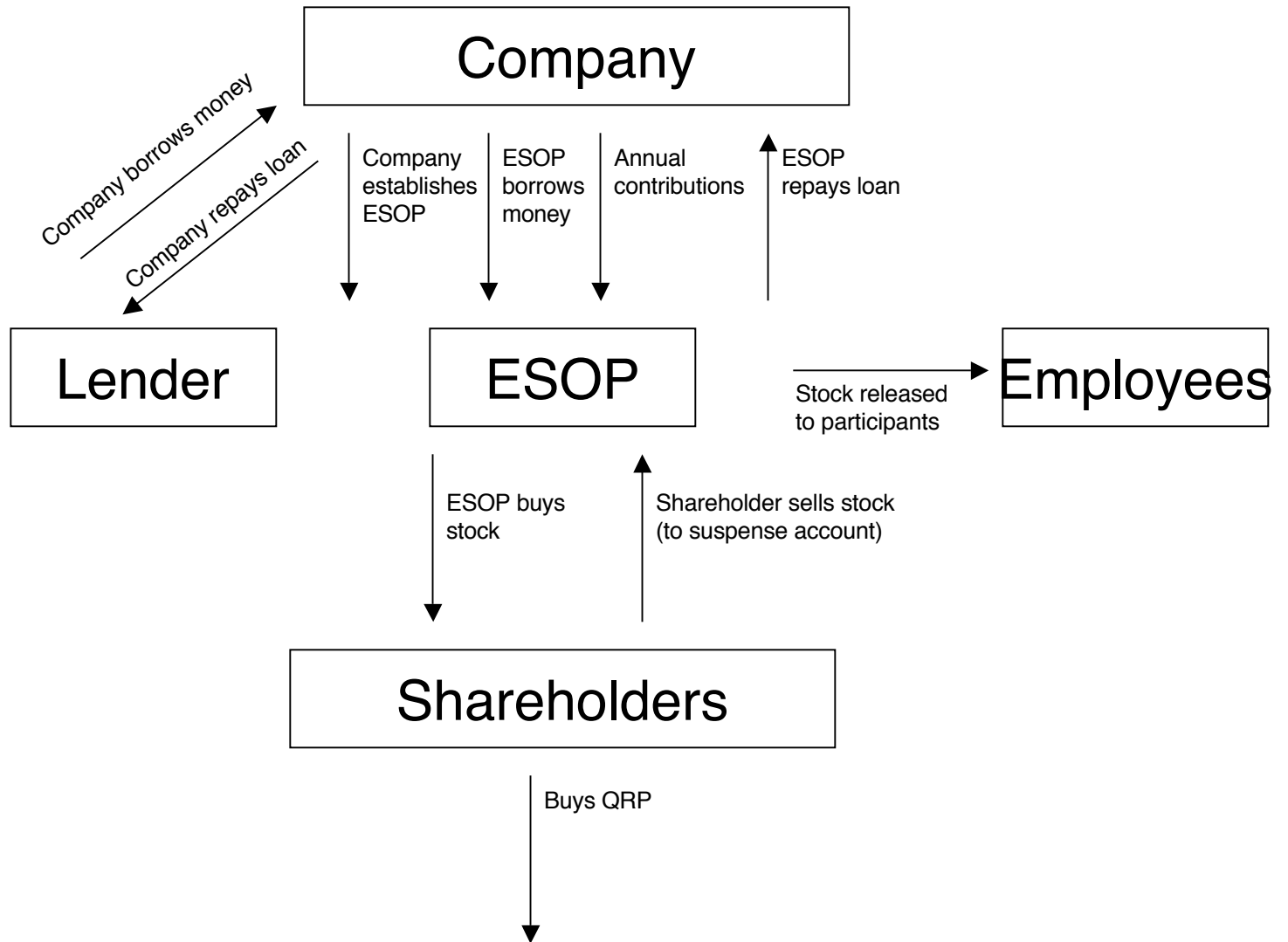
Qualified Retirement Plan

- **ESOP Rights**
 - Distributions (Repurchase Liability)
 - Diversification
 - Put Option
 - Voting
 - Non-allocation

Special ESOP Incentives

- §1042
 - C – Corporation
 - 30% ESOP
 - Qualified Replacement Property
 - Within 15 months (3 prior, 12 months post)
 - Domestic operating companies
 - Tax free rollover of proceeds
 - Loan Repayment
 - Interest fully deductible
 - Contribution deduction to 25%

Mechanics



Valuations

- ❑ Interactive process
- ❑ Value is not necessarily the sale price
- ❑ Fiduciary requirement
- ❑ Independent appraiser
- ❑ Mechanics

Valuations

- Required:
 - Initial purchase
 - At least annually
 - Subsequent transactions
 - Stock sale

Valuations

- **ERISA**
 - Adequate Consideration
 - ESOPs must pay no more than adequate consideration when buying stock. (Rev. Rul. 59-60)
 - Fair market value is the price an asset would change hands between a willing buyer and a willing seller with full information and without compulsion.

Mechanics

- **Define Scope** – dates, purpose, pressures
- **Data Gathering** – history, financial statements, plans & forecasts
- **Analysis** – comparative/guideline companies, capital markets
 - Income Approach – conversion of assets to a single amount
 - Market Approach – comparison of similar business/interests that have been sold
 - Asset Approach – determine assets net of liabilities (not generally used for ESOPs)

Mechanisms

- Discounts and Premiums
 - Marketability
 - Control

Succession Planning

- ❑ Avoid forced sale
- ❑ Tax-advantaged financing
- ❑ Retain control
- ❑ Estate liquidity