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## **ESOPs Offer Way to Retain Businesses in Iowa Communities**

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Rural communities are seeking solutions for retaining and growing local business and employment. Demographic trends imply future difficulties as many businesses are sold when owners retire. While some new owners stay and invest in the local community, others may move management or the entire company to a different location. Is there a solution that would allow retiring owners to liquidate their ownership interests, secure their personal legacy and contribute to the long term economic success of their community?



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An Employee Stock Ownership Plan (ESOP) offers an opportunity for an owner to sell a business to its employees. An ESOP is a retirement plan that owns employer stock for the benefit of employees. The ESOP trust that owns the business will maintain local ownership in perpetuity which can slow the decline in rural communities. Many ESOP-owned businesses perform better than competitors, are more stable during downturns and increase employment. Other benefits include solid financial returns to the seller, tax benefits to the company and the seller, and increased employee motivation. The state of Iowa supports ESOPs by reimbursing part of the cost of establishing an ESOP. An ESOP may not be appropriate for a company with a very small number of employees or one that struggles with profitability, but the benefits make ESOPs one of the more popular ownership transition methods.

Iowa's community banks have known this for decades. Numerous bank owners have sold bank stock to ESOPs to motivate employees and keep a sustainable, locally-owned bank, even in smaller Iowa towns. A large percentage of Iowa's community banks are owned in part by an ESOP. This contributes to Iowa's strong community bank culture and maintains local employment and decision-making.

Rural business owners and their advisers would do well to consider an ESOP as a succession option. A truly all-American idea, ESOPs continue a legacy of support for communities while also providing business owners an opportunity to receive fair compensation for their companies.