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What Benefits could an ESOP Provide for my Business?

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Employee Stock Ownership Plans (or ESOPs) are retirement plans giving employees equity through ownership of their employer's securities. Unlike a 4010(k), an ESOP can borrow to acquire all or a portion of a sponsoring company's stock.

- ESOPs are a tool to facilitate ownership transactions. An ESOP can acquire 100 percent of a company using a combination of bank debt and seller financing. For sales of minority interests, an ESOP creates liquidity options, providing business owners an opportunity to sell some shares, thereby diversifying their investment while retaining some shares to benefit from future profits and value increases.
- ESOP tax advantages increase company cash flow. An ESOP sponsored by an S-corporation pays no taxes on income attributable to shares owned by the ESOP. There are also potential capital gains tax advantages to selling C-corporation shareholder(s).
- ESOP companies are stronger. Studies show that businesses with ESOPs are more productive and more profitable, last longer in the marketplace, are more stable during economic downturns and provide greater shareholder returns than the market at large.
- Employees benefit from generally larger account balances at retirement. Increased employee motivation and involvement often improve employee retention and company profitability.

ESOPs are attractive to business owners who are interested in providing a legacy to their employees and local communities, which has created a tradition of employee ownership in Iowa.

ESOPs require a team of qualified ESOP advisers. With ongoing ownership transition of Iowa's middle market businesses, ESOPs will continue to be a popular tool for ownership transition and employee retention.