Case Study:

C-Corp ESOP

Concept:

A defined contribution benefit plan allowed to borrow money from a 3rd party lender to purchase the stock of the selling shareholder. Tax deductible contributions to the ESOP for the benefit of qualified employees allows the company to retire the debt with tax deductible dollars.

Client Profile:

Joe and Susan own a successful manufacturing company, a C-Corporation, employing 100 people. The company consistently generates an EBITDA of $5,000,000 annually. Joe and Susan have no children in the business and plan on retiring in 10 years. They have a strong management team and their employees are very loyal and have been long time employees. Joe and Susan want to establish a business succession plan that will leave the company in the control of their management team and employees.

Collaborative Design:

After the feasibility study is conducted, Joe and Susan establish an ESOP and elect to sell their stock to the ESOP Trust. Initially, Joe and Susan will sell 30% of their stock to the Trust for cash. The company is valued at 5x EBITDA or $25 million.

Result:

The Company secures financing from a 3rd party lender equal to 30% of its value or $7,500,000. Company makes tax deductible contributions to the ESOT. Under the law, principal and interest payments can be paid with ESOT contributions from the sponsoring company. Joe and Susan elect to do a 1042 rollout of their payment to defer the capital gains tax on the $7,500,000. Under the ESOP rules, Joe and Susan pay no income taxes as long as the entire payout is invested in American owned companies' stock. To protect its interest, the company secures life insurance policies on both Joe and Susan in the event of a premature death.