



## ESOPs as Tools for Creating Liquidity

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### Financial Advisory Services

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### Office Locations

New York, NY  
Los Angeles, CA  
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Many business owners want or need to sell a portion of their equity position in their business. This desire to sell can be driven by any number of reasons including the need to diversify personal net worth. Sales of company stock can also be driven by the need to buyout minority shareholders.

The establishment of an ESOP sets up a process that allows owners of stock in a private business to sell some or all of their business at fair market value to a ready and willing buyer - the ESOP. Under certain circumstances, selling shareholders may be allowed to indefinitely defer the capital gains tax on the sale.

Despite being a Qualified Retirement Plane governed by ERICSA, an ESOP can borrow money to finance the transaction and pay down the debt with tax deductible contributions to the ESOP, creating a deduction for both principal and interest payments.

### What Makes a Good ESOP Candidate?

A business owner with any of the following goals should consider the advantages of an ESOP:

- Enable one or more shareholders to immediately liquidate their holdings in the company
- Enable some or all current shareholders to sell their stock in phases over the next five to 10 years on a tax-free basis
- Enable shareholders to diversify their holdings in the company on a tax-free basis and still maintain control of the company
- Buy out inactive minority shareholders on a tax-deductible basis for the corporation and a tax free basis for the selling shareholders
- Grow the company through acquisitions on a tax-deductible basis
- Improve business performance through equity incentives
- Share equity in the company with employees to attract, retain and reward a productive work force.

### In addition, the best ESOP candidates have:

- C or S corporation tax status
- At least a five-year business history
- A business with a current minimum market value of at least \$ 4 million
- Eligible payroll of approximately \$500,000 or more
- Capable successor managers
- Good revenue and earnings history and the ability to secure financing

## About Marshall & Stevens

Marshall & Stevens is a national valuation firm established in 1932.

The firm provides appraisal and valuation services to middle-market and Fortune 1000 companies, ESOP consulting and financing services, real estate financing and advisory services and investment banking advisory services.

Throughout the past seven decades of our existence, we have remained focused on one priority, providing our clients the independent consulting services they require.