



This client wanted to keep their employee's and one way to improve employee retention was by putting in an Employee Stock Ownership Plan (ESOP). These are qualified plans where the ultimate goal is to have the employee's own all or part of the company without investing their own funds.

An ESOP may be leveraged or non-leveraged. By being leveraged the plan may take out a loan by borrowing funds (normally from a bank or other financial institution) in order to purchase the stock from the employer. The employer is then allowed to deduct both principal and interest payments on the loan. Normally, there are "two" loans. The employer will borrow the money from an outside entity and then the employer will re-loan the funds to the ESOP which is sometimes called an "inside" loan. With each payment the ESOP makes to the employer, shares are released to the employees from a suspense account that basically holds the unallocated shares within the trust.

The contributions to the ESOP may be in stock or cash and are tax deductions for the employer. The employee's acquire stock through the contributions or dividends to the plan. The allocation formula must be definitely determinable using participant compensation. The plan may also allow dividends to pay down the loan for a leverage ESOP.

Stock Valuations are needed each year to value the stock. The employer must use an independent appraiser qualified to make appraisals of corporations.

There are special rules depending on the employer entity between a C-Corp and an S-Corp that would need to be discussed prior to putting in an ESOP plan. These rules are complex and meeting would need to be set up to further discuss.

The below study illustrates the allocation of contribution used to purchase the stock of the company for this particular year.

**ABC COMPANY, INC.  
ESOP PLAN  
FOR THE PLAN YEAR ENDING DECEMBER 31, 2020**

<i>PARTICIPANT NAME</i>	<i>AGE</i>	<i>SALARY</i>	<i>401(K) DEFERRAL</i>	<i>SAFE HARBOR 3% CONTRIBUTION</i>	<i>TOTAL EMPLOYER %</i>	<i>TOTAL CONTRIBUTION</i>	
MAJORITY OWNER	52	\$ 285,000.00	\$ 26,000.00	\$ 8,550.00	3.00%	\$ 34,550.00	
MINORITY OWNER	42	\$ 114,518.00	\$ 19,500.00	\$ 3,435.54	3.00%	\$ 22,935.54	
TOTAL FOR HCES		\$ 399,518.00	\$ 45,500.00	\$ 11,985.54		\$ 57,485.54	92%
EMPLOYEE 1	38	\$ 97,642.00	\$ -	\$ 2,929.26	3.00%	\$ 2,929.26	
EMPLOYEE 2	25	\$ 63,836.00	\$ -	\$ 1,915.08	3.00%	\$ 1,915.08	
EMPLOYEE 3	34	\$ 10,646.00	\$ -	\$ 319.38	3.00%	\$ 319.38	
EMPLOYEE 4	19	\$ 851.00	\$ -	\$ -	0.00%	\$ -	MINIMUM SERVICE
TOTAL FOR EMPLOYEES		\$ 172,124.00	\$ -	\$ 5,163.72		\$ 5,163.72	8%
GRAND TOTAL		\$ 571,642.00	\$ 45,500.00	\$ 17,149.26		\$ 62,649.26	100%

This illustration is contingent upon several factors. Some of the factors are the demographic, financial and business ownership information provided to us. Should any of these factors change in any year, a plan adopted based on this illustration may require modification to an appropriate plan design. The actual contributions for the year illustrated can not be determined until actual compensation for the year is known.