

## **Business Transition Advisors (BTA) ISSUES & INNOVATIONS**

Daniel M Zugell, Executive Vice President

*“BTA assists owners of closely held businesses in... succession planning... Our collective business experience provides a unique perspective to address personal liquidity opportunities that may include stock or asset sale, Employee Stock Ownership Plan (ESOP), recapitalization, estate and gift or other transfers of ownership. We advise...on exit strategies to ensure a smooth and effective transition to new ownership and management structure.”*

How many times have you heard the word ESOP? Probably many times like me, but until today, I couldn't give you a clear definition. That, in a nutshell, is the issue for BTA that cries for a solution and the answer is education. An ESOP is like a hidden gem and business owners need to know and understand the benefits.

*“An ESOP is a retirement plan where employees gain ownership of company stock, usually as part of their compensation package. It works by the company contributing shares or cash to a trust, which then buys company stock. Employees increase shares over time, often based on service or salary, and these shares become part of their retirement savings.”*

Education is critical because the ESOP tax benefits are amazing. The business must be either a C or S Corporation. An S Corp, for example, which is 100% ESOP owned, pays capital gains tax BUT pays zero federal and state tax on profits like a C Corp with an ESOP.

“Dan the ESOP man” also shared that U.S. Congressman Mike Kelly recently introduced a bill that will help S Corps even more. C Corporations can defer and eliminate capital gains tax. Congressman Kelly's bill, which is bipartisan, will extend capital gains benefits to S Corps. That helps the trust pay down debt when they buy stock from the shareholders. TAX SAVINGS PAYS the DEBT!

“Dan the ESOP man” noted Kelly's D.C. Legislative Director said the bill will be considered when retirement and social security issues are addressed in one to two years.

There are several key benefits for employees of an ESOP. They receive added retirement savings, the potential for increased wealth, a sense of job security, and increased company engagement.

An ESOP is the most tax effective way to sell a business because the business and wealth stay in the community. Dan gave an example of a company without an ESOP that was sold to a Canadian private equity firm. In that instance all of the wealth flows to Canada from western PA and the local employees lose their jobs.

Dan eats and breathes ESOPS. He's been at it for 25 years. He speaks all over the Commonwealth. He is a founding member of the state chapter of the non-profit National Center for Employee Ownership [www.nceo.org](http://www.nceo.org) He also speaks with lawmakers.

I asked Dan how the process starts for a company who is considering an ESOP. The first step is a feasibility study. He mentioned several MBA members who are now ESOPs, Onyx, Inc. in Erie and Acutec Precision Aerospace, Inc. in Meadville. Another note of interest, in 2022 Pennsylvania was the second leading state for ESOP formation, topped only by California.

Talking with Dan about ESOPS was like drinking from a firehose. He is the only full-time ESOP man in Western PA and after seeing and hearing his enthusiasm, it is no surprise.

Keep on spreading the word about ESOPs Dan. There are many companies who will benefit from your education!