ESOPs: Succession Planning Strategy for Family Businesses – May 5, Keely Collins

Comprising about 62 percent of our nation's employment, family business owners work hard to create wealth and jobs for their local communities. When family business founders retire without a family member successor, many business owners are left to look for a buyer. Particularly where the business is sold in an asset purchase, loyal employees may be left without their benefits or even without a job. Even if the workforce survives, the values of the founders may be sacrificed.

What is a family business founder to do?

- Employee stock ownership plans (called ESOPs) allow owners of privately-held businesses to liquidate their shares by bringing employees into the shareholder group.

- In addition to creating a pathway to de-equitizing the business, ESOPs have tax advantages to the owners and the companies.

- To employees, ESOPs are a tax-favored employee benefit and can be a retirement savings vehicle, especially when paired with a 401(k) plan option.

- If properly developed and implemented, succession planning with an ESOP allows the culture to continue while giving flexibility to remaining family members.

The ESOP is a strategy to consider in family business succession planning. Although some family businesses have used ESOPs for a complete buyout, some businesses have used ESOPs for just some shares at a time for a gradual transition. Either way, ESOPs may be a useful consideration for family businesses.