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ESOP Checklist

Are you ready for an Employee Stock Ownership Plan? ESOPs offer tax advantages, cultivate an ownership culture, and provide an attractive option for a succession plan. Use this checklist to assess your readiness and understand the steps involved in an ESOP transition.

Step 1: Readiness

- ☐ What made you consider an ESOP?
- ☐ What goals would you like to achieve through the transition to an ESOP?
- ☐ As owners, are you committed to and prepared for ownership transition, both financially and emotionally?
- ☐ Have you considered the potential tax benefits for the selling shareholders?
- ☐ Is your company's management structure properly aligned to operate the company after transition or will you need to hire additional management?
- ☐ Is your corporate culture appropriate for an ESOP structure?
- ☐ How will an ESOP affect existing retirement plans, customer relationships, lending relationships, and employee motivation?
- ☐ Do you know the initial and ongoing professional costs (valuation, accounting, legal, etc.)?
- ☐ Have you performed financial analyses and comparisons, including the tax savings, of an ESOP?
- ☐ Have you performed a feasibility study?
- ☐ Will a financial statement audit of your company and/or the ESOP be required as part of or after the transition?

Step 2: You've made the decision – What's next?

- ☐ Who will be the valuation, legal, and financial transaction experts for establishing the ESOP?
- ☐ As owners, will you fund the transaction or will you need to borrow money from the bank?
- ☐ What percentage of the company will be owned by the ESOP? Do you know the benefits and disadvantages of 100% ESOP ownership? Will there be multiple purchases to reach 100%?
- ☐ Would an S-Corp or a C-Corp be the right fit for the company?

- ☐ Has a trust been created to receive the annual company contributions?
- ☐ Will there be individuals within the company acting as trustee(s) of the ESOP, or will you hire an outside, independent trustee? If you will be using individuals within the company, do they understand their fiduciary responsibilities?
- ☐ How will you communicate the transition to employees? Are you able to articulate the different benefits for the owner, the CFO, and the employees?

Step 3: Designing the ESOP

- ☐ What will be the eligibility criteria for participating in the plan?
- ☐ How will the plan allocate contributions to individual employee accounts within the plan (e.g., proportional to compensation, years of service, or some combination)?
- ☐ What will be the vesting schedule (if any), and how will the plan handle distributions of ESOP accounts?
- ☐ Who will be the plan fiduciaries and what are their responsibilities?
- ☐ Should you establish an ESOP committee, and, if so, who will be on the committee?
- ☐ Will you engage the services of a third-party administrator (TPA)? What is the TPA's experience with ESOPs?

Step 4: Maintaining the plan

- ☐ What are the repurchase obligations of the ESOP for departing participants?
- ☐ How will the repurchase obligation be funded?
- ☐ What incentive plans can be put in place to help drive increases in the stock price over time?
- ☐ Who will be responsible for ensuring that required plan amendments resulting from changes to laws and regulations are implemented in a timely fashion?
- ☐ Who will be responsible for providing employees with the required disclosures?
- ☐ What types of educational programs will you have for employees to ensure they understand employee ownership?

A checklist can get you only so far. Becoming an ESOP company is a complex and often emotional decision. Expert ESOP advisors and careful planning smooth the transition.

Visit berrydunn.com or send an email with questions directly to a BerryDunn advisor.