

# Five Reasons to Consider an ESOP

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What you need to know about an **Employee Stock Ownership Plan (ESOP)** and why.

An employee stock ownership plan (ESOP) is an individually designed stock bonus plan, which is qualified under Internal Revenue Code Section 401(a). The ESOP provides business owners the ability to sell equity ownership to a trust for the benefit of the employees in exchange for cash and stock. ESOP held companies continue to operate in an unmatched tax efficient manner, unlocking new capital for funding growth initiatives and paying down debt more rapidly. Currently, there are more than 9400 ESOP owned companies in the United States. The Bloom Organization has pioneered the advancement of ESOP transactions as an alternative to traditional M&A transactions for medical practices.

## **Why consider an ESOP?**

✦ ESOPs allow the owner of a business to liquidate a portion of their business while *maintaining full autonomy*. As in most businesses that are built and grown directly by the owner's hard work over many years, medical providers are particularly sensitive to maintaining control over their practices.

✦ As with any *sale* of a business, owners want to get a *liquidity event*, the liquidity from an ESOP is derived in the same manner as a sale to a buyer / partner whether it is private equity or a strategic partner. An ESOP structure requires the owners to sell between 30 and 100 percent of the business to the ESOP trust.

✦ Selling shareholders proceeds are treated in the *most efficient tax structure* as is the company itself. Selling shareholders benefit from their proceeds being taxed at long term capital gains or can benefit from implementing structures in accordance with the IRS tax code 1042 to become nontaxable. The ESOP itself becomes a tax-exempt entity, debt repayments, both *interest and principal*, are **tax deductible**. This frees up money to fund growth and expansion.

✦ ESOPs are funded partially with bank funding and seller notes. Employees do not have to fund the ESOP, they are receiving a benefit with no cost to them. Employees are more enthusiastic about going to work and performing. Growth of companies that are an ESOP structure has been shown to be greater than growth of similar companies that are privately held. The ESOP structure does not preclude the company from implementing other types of retirement plans.

✦ ESOPs provide an attractive offer to young doctors joining new practices. As an employee they start to earn shares in the ESOP immediately and have a tangible asset (stock) that grows and has value. This allows ESOP practices to become more competitive recruiting and keeping great doctors throughout their careers.

As with any transaction an ESOP is not as simple as it seems. All transactions have their own complexities and the ESOP is no different. Moving toward getting any transaction closed requires advisors who have experience in all the intricacies that a business will face while going down the path. Reach us at [info@bloomllc.com](mailto:info@bloomllc.com) or call us directly at 305-974-0700 to learn more about ESOPs or any other transaction.

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#### ABOUT THE BLOOM ORGANIZATION

Bloom has been advising physicians on transactions since 1990. Founded by [Mr. Henry Bloom](#), the Company is based in Aventura, FL and serves clients nationwide. Bloom's investment banking expertise is in the healthcare services sector.

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