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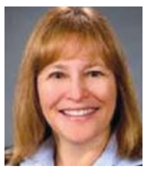
ESOP TRANSACTIONS AS A SUCCESSION PLANNING SOLUTION



SHERRI LAZEAR
Lazear Capital Partners, Ltd.

There are approximately 77 million Baby Boomers in the United States. According to AARP, 10,000 Baby Boomers are turning 65 each day and this trend is expected to continue into the 2030's. A recent survey found that approximately 75 percent of privately held businesses owned by Baby Boomers will be sold during the next 10 years.

Many owners are terrified by the thought of selling their businesses and are unable or unwilling to confront the reality of their age and need for liquidity. The owner's identity is commonly intertwined with the company that they founded and led for decades. Owners fear the sale of their companies will leave them dispossessed of their leadership of the company and take away their "place in the world."

Business owners are also concerned that a third-party purchaser may shut down operations or move them overseas and terminate employees. Consequently, many successful business owners put off performing any type of succession planning until it is too late, and death, disability or financial distress results in a sale of the company for less than fair value.

A sale to an Employee Stock Ownership Plan solves these problems. An ESOP is a qualified retirement plan for the benefit of the company's employees. Rather than holding mutual funds, as is common in a 401(k) Plan, an ESOP primarily invests in the employer's stock. The ESOP rules are set forth in the Internal Revenue Code and they provide two significant tax benefits:

• The owner may sell their shares to an ESOP and either defer or eliminate entirely the capital gain tax on the sale. This typically increases the seller's net proceeds by approximately one-third as compared to any other buyer. For instance, if an owner could sell the company for $20 million to a competitor, they would net $15 million after capital gains taxes. With an ESOP, the owner could net $20 million.

• Since an ESOP is a retirement plan, all of the company's post-ESOP earnings may be federal and state income tax free. This typically increases the company's cash flow by approximately 50 percent. For instance, a company with $3 million in taxable income would pay approximately 33 percent in federal and state income tax ($1 million). With an ESOP, the income tax may be $0, for a savings of $1 million per year.

While the economic benefit of an ESOP transaction is obvious, many owners opt for a sale to an ESOP since it speaks to the two issues discussed above: a fear of losing their identity when they sell and a concern for their employees' well-being under new ownership. A sale to an ESOP also enables the owner to continue to lead the company post-closing with operational control.

There are more than 7,000 ESOPs in the United States and approximately 8 percent of corporate equity is owned by ESOPs. The sale of a company to an ESOP works with numerous types of businesses such as:

• Consultancies, which sell time and advice

• Companies in which the material portion of the purchase price is contingent, usually based on future earnings

• C Corporations that sell assets

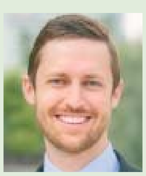
•Any business without a natural buyer

• Companies in which the intellectual capital of the employees is the true asset

• ESOP transactions are also ideal for manufacturers, distributors, companies in the construction industry, IT consultancies and staffing firms.

As the Baby Boomer generation continues to age and seek a means to obtain liquidity from their companies, an ESOP is an ownership transition tool that may provide them the greatest after tax proceeds while preserving their "place in the world" and their employees' jobs.

THE SECURE ACT AND IMPACTS TO YOUR RETIREMENT



JAKE MARTIN
The Joseph Group

Big changes just took effect for retirement accounts. The Setting Every Community Up for Retirement Enhancement (SECURE) Act, signed into law on Dec. 20, 2019, contains many changes to retirement accounts. Here are the key changes to be aware of:

1) Broadens the availability of Multiple Employer Plans (MEPs) where several companies join together in the same retirement plan (e.g., 401(k) plan).

2) Creates a simplified option for employers to provide a lifetime income option on 401(k) plan accounts.

3) Requires employers to allow employees who work 500 hours or more per year to participate in the employer retirement plan. This takes effect in 2021.

4)Allows penalty-free IRA withdrawals prior to age 59.5 for up to $5,000 related to birth or adoption expenses. However, the distribution is still taxable.

5) Required minimum distributions (RMDs move from age 70.5 to age 72. RMDs are mandatory distributions from IRAs and retirement plans that are taxable. The first distribution can still be delayed until April following the year that the person turns 72. Qualified charitable distributions are still allowed starting at age 70.5.

6) Non-spouse inherited IRAs must be fully distributed within 10 years. Accounts inherited prior to Jan. 1 are grandfathered into the previous lifetime distribution rule.

7) Anyone with earned income can contribute to a traditional IRA and/or a spousal IRA after the age of 70.5 (previously contributions were capped at age 70.5).

8)529 accounts can now be used to repay up to $10,000 of student loan debt for themselves, a child or a sibling of child.

Depending on your personal circumstances, the SECURE Act may impact you in multiple ways. Check with your financial advisor and tax preparer to see how the SECURE Act affects you.