YOUR VOICE

***DANIEL ZUGELL** is a chartered life underwriter, chartered financial consultant and life underwriter training council fellow. He is the eastern U.S. director for Business Transition Advisors Inc. in Cranberry Township, a business transition consulting firm specializing in ESOPs. He also is immediate past president of the Pittsburgh chapter of Society of Financial Service Professionals. For more information, call 724-766-3998 or e-mail dzugell@bta.us.com.*

Business transition option shouldn't be overlooked

ESOP's Tale

It is no surprise the baby boomers, born between 1946 and 1964, are looking to retire as they turn age 65 at a rate of 10,000 a day for nearly the next two decades.

Sixty-two percent of U.S. companies are planning to sell all or some of their stock within the next five to six years, according to a recent PricewaterhouseCoopers report.

It is projected to be the biggest transfer of wealth in U.S. history, estimated at $15 trillion or more during the next 15 years.

Pennsylvania is the sixth-largest economy in the country, with about 14,000 businesses in Butler County alone.

Many of these Pennsylvania companies fall in this baby boomer-owned category and are considering how to transfer their businesses and enjoy the fruits of decades of hard work.

An Employee Stock Ownership Plan, or ESOP for short, is an often overlooked method of business transfer as boomers look to do so in a way that best suits their families' goals and objectives.

Many are family operations that would like to perpetuate the business into the next generation or to key management personnel but giving the business away is not a viable option, and the next generation often cannot afford or even borrow the purchase price.

The owner also faces considerable taxation on stock sale proceeds, including capital gains tax on the gain portion of the sale proceeds.

As of Jan. 1, 2013, the federal capital gains tax burden on a selling shareholder increases from 15 percent to 20 percent, plus 3.07 percent Pennsylvania capital gains tax. Additionally, the recently passed health care legislation imposes a 3.8 percent tax on the gain portion of a business sale, effectively making the combined federal and state capital gains rate on a sale of a business 27.5 percent.

ESOPs have unique procedural and tax benefits that are not affected by the tax law changes. Certain ESOP structures might not be subject to the underlying affected capital gains or income taxes at all. Therefore, ESOPs, in the right situation, can be one of the best and most tax-efficient ways for a business owner to transfer a business and often provide the most net after-tax proceeds to the seller as compared to other transfer methods.

ESOPs defined

In practical terms, an ESOP is a highly tax advantaged, immediate or gradual exit strategy for business

owners desiring liquidity or to simply take "chips off the table."

The ESOP is a "ready and willing" buyer of the seller's stock that keeps out unrelated third parties and allows corporate control to remain unchanged. It retains the seller's existing perks while providing significantly enhanced retirement benefits to all eligible employees who will have a beneficial ownership interest in the stock sold to the ESOP.

Technically, an ESOP is a defined contribution, tax-qualified retirement benefit plan under Internal Revenue Codes 401(a) and 4975(e)(7) and overseen by the IRS and the U.S. Department of Labor designed to invest "primarily in employer stock."

How an ESOP works

Only ESOPs are allowed to borrow the funds required to buy the desired shares at fair market value from the selling shareholder.

Typically, the ESOP borrows funds from a bank, or the seller takes back a note.

The company makes tax-deductible contributions to the ESOP, which uses the funds to repay the loan incurred to buy the stock until the debt is repaid.

The shares purchased by the ESOP are allocated to the employees of the company in proportion to their compensation as the loan is repaid.

Seller advantages

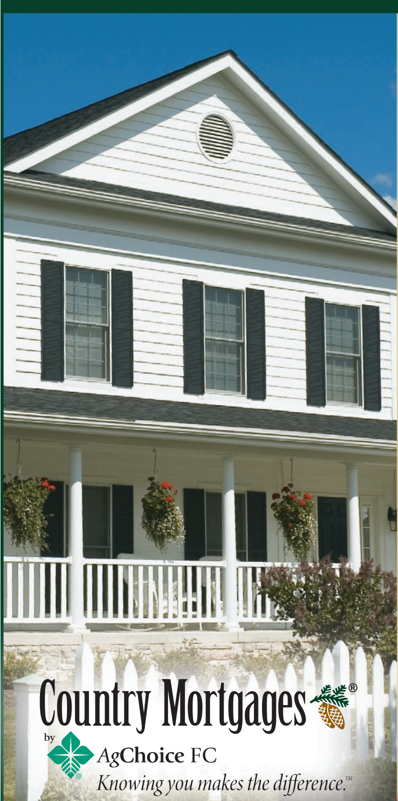
- The selling shareholder may indefinitely defer/eliminate all capital gains on the sale proceeds.
- The seller enjoys an immediate buyer of some or all of the seller's stock at fair market value.
- The seller can retain personal salary, perks, benefits and control without the interference of outside interests until ready to hand over the reigns.
- The seller retains personal and corporate legacy in the town in which he has built his livelihood and substantially contributed.

Corporate advantages

- The company receives a dollar-for-dollar income tax deduction on the entire stock sale price.
- An ESOP company can be 100 percent federal and state income tax exempt.
- ESOP companies may outperform their peers with increased productivity and higher return on investment.

Continued on **Page 10**

What are your country home dreams?



We can help them come true!

Financing for:
• Construction • Storage buildings
• Home improvements • Farm improvements
• Horse barns • Loans and leases
And much more!

Free Prequalifications
Call Jim, Elaina or Kathy
1-800-829-0056
www.AgChoice.com
or email ButlerInfo@AgChoice.com

Country Mortgages® by AgChoice FC
Knowing you makes the difference.℠

Jim McGinnis, Elaina Rader and Kathy Hartzell

R.W. McDONALD & SONS
Serving The Butler Area Since 1945

You Are Guaranteed The BEST...

BEST

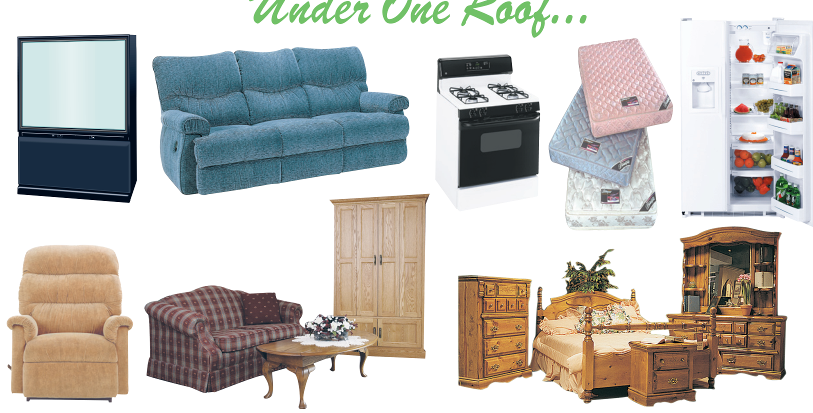
PRICE Give yourself the benefit of R.W. McDonald & Sons enormous buying power. We're part of one of the largest Co-Op's in the U.S.

SATISFACTION "The No Lemon Guarantee." If a product that you buy from R.W. McDonald & Sons is in Service over 3 times in the first year after purchase for legitimate problems, we will replace the Unit with a new one or a comparable Model with the Closest features. See store for details.

SELECTION We have the best selection of the World's best brands . . . the one's you know and trust – so extensive and carefully chosen that there is no reason to look elsewhere

DELIVERY With our delivery you get free normal hookup and free disposal of your old product. Our courteous and neat professionals will treat your purchase and home with utmost care and respect.

Largest Selection of Famous Name Brands Under One Roof...



• AMANA • LANE • FRIGIDAIRE • EAGLE • GE • BEST • VAUGHAN BASSETT
• KITCHEN AID • LEGACY • WHIRLPOOL • SAMSUNG • SEALY • MAYTAG • LIBERTY
• BOSCH • TOSHIBA • LG • RIVERSIDE • PULASKI • FISHER & PAYKEL • MAGNAVOX
• ENGLAND • ELECTROLUX • LIEBHERR • CAPITAL • SYMBOL • CRAFTMASTER

LARGEST INDEPENDENT FURNITURE, APPLIANCE, ELECTRONICS AND MATTRESS RETAILER IN BUTLER COUNTY!

2011 GOLD AWARD WINNER
We would like to thank the Butler eagle Readers for selecting us your NUMBER ONE choice... for Furniture and Appliances!

1176587

R.W. McDONALD & SONS INC.
APPLIANCE • T.V.
FURNITURE • MATTRESS

1667 N. Main Street
Butler
1 Mile North of Clearview Mall Entrance, on the right
724-287-1724
MON., WED., THURS., FRI. 10 am - 8 pm;
TUES. & SAT. 10 am - 5 pm;
SUNDAY 11 am - 4 pm

The largest study to date regarding ESOP performance was a 2000 Douglas Kruse and Joseph Blasi of Rutgers University study that found that ESOPs increase sales, employment, and sales/employee by about 2.3 percent to 2.4 percet per year over what would have been expected absent an ESOP.

A more recent study in the Journal of Employee Ownership Law and Finance published in 2006 showed the return on equity of the ESOPs companies studied was 5.6 percent higher than comparable non-ESOP companies. It also found that the "net" profit margin was 10.3 percent greater in ESOP companies.

Employee, community advantages

- The employees enjoy enhanced retirement benefits of company stock with no out-of-pocket costs.
- An ESOP's orderly internal transfer of the company creates a more stable and reliable community employer.
- The company remains an important contributor to the community.

Governance, control

Stock ownership and control are not synonymous in an ESOP company.

In an ESOP company, the shares outside the ESOP appoint the board, which names the ESOP trustee. An ESOP trustee is usually a "directed trustee" voting as the board directs without the input of the employees.

The employees have no minority shareholder rights, access to financial information or voting rights.

Therefore, control can be maintained by a 1 percent owner even if the ESOP owns the other 99 percent.

Control is easily and affordably transitioned by gifting or selling the 1 percent, in this example.

ESOP's legacy

Many owners want their children and/or key management to eventually run and own the business, but those individuals cannot afford to purchase the business nor obtain adequate financing.

An ESOP's "legacy full circle" increases direct ownership to the next generation over time without personal financing and the potentially conflicting goals and interference of outside unrelated interests.

As employees leave the company for any reason, the company may repurchase the shares from the participants and retire the shares into treasury. This reduces the overall outstanding shares and increases the percentage of ownership that is held outside the ESOP by the children and/or key management.

In theory, when the last share is repurchased and retired, the shares held outside the ESOP represent 100 percent of the value of the company.

An ESOP is a ready and willing buyer and highly tax-advantaged business transition tool that is often overlooked because of perceived complexity or lack of knowledge.

An ESOP may be the ideal method to transfer a business on the seller's timetable to the next generation without the interference and costs of outside parties.

As the window of record low capital gains rates are set to expire on Dec. 31, boomer business owners owe it to themselves to explore their options. ❖

YOUR VOICE

If you would like to submit a guest column, contact David Means at 724-431-2209, Ext. 280, or dmeans@butlereagle.com

IT'S A DATE

Chambers offer showcase in July

Three chambers of commerce will host a business-to-business showcase from 1 to 6 p.m. July 17 at The Atrium on Route 422 in Prospect.

The Butler and Armstrong county chambers, plus the Zelienople-Harmony Chamber of Commerce are hosting the "We Mean Business" expo and exhibitor cocktail party.

For information, call one of the chambers at: Butler County, 724-283-2222; Armstrong County, 724-543-1305; and Zelienople-Harmony, 724-452-5232.

Job fair for veterans set July 30

Butler VA Healthcare on New Castle Road in Butler Township, in conjunction with the U.S. Chamber of Commerce and the National Chamber Foundation, will host a "Hiring Our Heroes," job fair from 9 a.m. to noon July 30.

This is a free hiring fair for veterans. Both job seekers and businesses that are looking for workers can go to www.hiringourheroes@uschamber.com.

ATTENTION BUSINESS OWNERS!

ARE YOU LOOKING FOR A TAX-ADVANTAGED BUSINESS EXIT STRATEGY?

If so, an Employee Stock Ownership Plan (ESOP) may be the answer. An ESOP allows the owner/company to:

- Take all or some "chips off the table"
- Realize full Fair Market Value for cash at closing
- Defer/Eliminate all capital gains taxes on sale proceeds
- Become a 100% federal and state income tax-exempt company
- Transfer control to family or management on seller's timetable
- Preserve legacy in town in where the seller contributed so greatly

CONTACT DAN ZUGELL FOR A FREE, NO OBLIGATION CONSULTATION AND TO RECEIVE A COMPLIMENTARY COPY OF *"INTRODUCTION TO ESOPS"*

1177376

BTA BUSINESS TRANSITION ADVISORS INC

Dan Zugell (724) 766-3998
dzugell@bta.us.com
www.BusinessTransitionAdvisors.com

Banner&Sechler
Attorneys at Law

A Veteran Owned Law Firm

We invite you to attend a No charge Estate Planning and Asset Protection Workshop

"The 7 Threats to Your Family Security"

This Workshop covers the following topics:

- Will and Trusts
- Asset Protection
- Powers of Attorney
- Medicaid Qualification
- Veterans Benefits
- Long-Term Care Insurance

Upcoming Workshop Dates:

July 10, 2012 at 6:30 pm • July 19, 2012 at 6:30 pm
July 26, 2012 at 2 pm • July 31, 2012 at 6:30 pm

SEATING IS LIMITED. PLEASE CALL TO RESERVE YOUR SEAT TODAY.

318 South Main Street | Butler, PA 16001 | p: 724.841.0004 | f: 724.841.0024

1177285

BannerSechler.com