

Rewarding employees for their loyalty

Wilfong Meyer Gage Group

How Wilfong Meyer Gage Group leveraged an ESOP to meet personal and business objectives

The situation

Our client worked in the transportation industry for more than 35 years. He created and grew multiple different businesses in the intermodal space and was considering his exit strategy. A visionary leader with a deep care for his employees, our client wanted to explore the option to transition his business to the team that helped him realize his success.

The strategy

Focusing on our client's priority to express loyalty and reward his hard-working employees, we recommended an Employee Stock Ownership Plan, or ESOP. With an ESOP, the company sets up a trust fund (the employee stock ownership trust) to which it makes contributions of stock or cash in order to buy existing shares. Shares in the ESOP trust are allocated to separate accounts for the employee-participants.

We have the experience and resources our clients need to evaluate and pursue an ESOP.

- We advised our client to meet with a CPA to fully leverage the tax treatments of an ESOP

- Our team worked in concert with attorneys to ensure that our client's ownership interests transitioned appropriately within the family
- Via the resources of UBS, we leveraged our ESOP Advisory team to assess feasibility and management of the ESOP

The result

Initially, our client sold a minority position in the company to his employees. After five years, the remaining shares were sold to his employees, creating a 100% employee-owned company. Due to our client's vision, employees can see the direct correlation from their hard work to the increase in the company's stock value.

In closing, our client benefited from the following aspects of an ESOP:

1. **Tax Mitigation:** Our client sold company stock to an ESOP and could defer, or possibly avoid, paying tax on the realized gain
2. **Diversification:** The ESOP allowed our client to diversify out of his position in the company without paying current tax by rolling the proceeds into a qualified replacement property (QRP). If our client holds the QRP until death, the gain is eliminated since the basis in the QRP assets is "stepped up" to fair market value at death.
3. **Business Succession:** The ESOP is a willing buyer, which can be difficult to find when contemplating a sale of a closely held business. ESOPs can help families transition ownership to the next generation while allowing the senior generation to retain control of the business.



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