

An employee stock ownership plan (ESOP) is both a tool for allowing the owners of companies to share the business equity with employees and a retirement plan for those employees. Businesses that have implemented ESOPs have seen a number of benefits:

- Employees gain an ownership stake in the business, increasing their personal wealth without the risks associated with creating or purchasing their own business.
- Employee job security and personal satisfaction increase.
- ESOP businesses are more productive and more profitable, last longer in the marketplace, and provide greater shareholder returns.

In addition to the general economic benefits, the IEDA believes that ESOPs are a promising tool for retaining businesses in Iowa communities. Across the state, there are businesses that have been operated in local communities for many years by owners committed to the welfare of the community. But when those owners wish to retire or to start a new business, they often need to sell the business. It can be a great thing for the community if the business is sold to the employees, through an ESOP, rather than to an out-of-state buyer that may shift jobs and profits out of the community. For these reasons, the State of Iowa recently passed two pieces of ESOP-related legislation.

## ***ESOP Formation Assistance***

The IEDA has received an appropriation of \$500,000 to establish a program to encourage the formation of ESOPs in Iowa. The money will be used to help businesses interested in ESOPs defray the upfront costs of feasibility studies.

The program provides financial assistance to businesses interested in establishing an ESOP. An applicant to the program may be approved for financial assistance in an amount equal to 50 percent of the cost incurred for obtaining a feasibility study conducted by an independent financial professional. The total amount of financial assistance provided to an applicant will not exceed \$25,000. The financial assistance may be provided in two tranches. The first tranche will be provided as a reimbursement of 25 percent of the cost of a feasibility study and will be remitted upon completion of the feasibility study. The second tranche will be provided as a reimbursement of 25 percent of the cost of the feasibility study and will be remitted only upon completion of an ESOP formation. A business that does not successfully complete the formation of an ESOP will not receive the second tranche. A business will be required to provide to the authority documentation establishing the costs incurred and the successful completion of all necessary transactions.

## ***Capital Gain Deduction for Sale of Stock to an ESOP***

The State of Iowa offers a 50% deduction from state income taxes for the net gain from the sale of stock to an ESOP. This incentive is not an economic development program but rather a permanent feature of the tax code. The deduction is intended to incentivize owners to sell to employees rather than to a competitor or other non-employee buyer and to help businesses achieve the competitive benefits that flow from employee ownership.