



"A CPA firm that understands dealership management, accounting, and tax issues"

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***ESOP – An Alternative Approach in Dealership’s Succession Planning***

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Fifty percent of the 20,000 U.S. dealerships are owned by individuals who are over fifty-five years of age, and most do not have an exit strategy to liquidate their dealerships. The value of dealerships has substantially increased over the last ten years which makes it very difficult to find buyers who have the financial ability to purchase a dealership. The public companies confine their interest to the very large dealerships, while the local consolidators are usually looking for a bargain purchase. An **ESOP** (Employer Stock Ownership Plan) provides the dealer with an alternative form of sale over a period of time.

The ESOP enjoys a number of tax and financial advantages not enjoyed by other types of buyout alternatives, including the following:

- The fair market value of the dealership is determined by outside appraisers, and the ESOP trust pays for the stock based on the appraisal amount.
- The dealer does not have to sell the entire amount of the stock. He may only sell a thirty percent ownership in the beginning, and still keep control of the dealership.
- The ESOP can borrow the funds to complete the transaction. There are many banks that specialize in ESOP financing.
- The owner does not have to relinquish the control of the Company until he is ready to fully retire.
- If thirty percent or more of the Company's outstanding stock is sold to the ESOP, the owner can defer the capital gains tax by reinvesting the funds in replacement securities.
- The owner can take care of his loyal employees by providing them with ownership in the ESOP. This incentive can produce positive benefits to the Company's profits. National studies reveal that the average ESOP run company tends to be ten percent more profitable than a non-ESOP counterpart.
- An ESOP enables the dealer to provide for business continuity for the dealership he has grown and nurtured over the years. Unlike a sale, the ESOP enables the dealership to retain its separate identity rather than becoming a division of a larger company.
- The dealer can keep the real estate of the dealership and lease it to the ESOP at fair rental value.
- Once the Company is one hundred percent purchased by the ESOP, it pays no federal taxes.

The ESOP approach provides the owners of the dealership an opportunity to exit the Company over an orderly time period without having to sacrifice the identity of their dealership, jeopardizing the jobs of valued employees, or relinquishing control of the Company they own.

For more information on ESOP's, please email Paul McGovern at [pmcgovern@downeycocpa.com](mailto:pmcgovern@downeycocpa.com) or call **781.849.3100**.

***Downey & Company, LLP***, (members of the ESOP Association and New England Chapter of ESOP) has been servicing the auto industry for twenty-five years. We provide services to eighty dealerships located throughout the Northeast.

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