

C H A P T E R O N E

What is an ESOP?

IN TECHNICAL TERMS, an ESOP is a formal stock equity plan that can include stock equity, stock options, or phantom stock. The definitions for these terms will be provided later in the chapter. An ESOP can be part of an employee benefits package or a corporate financing strategy. The plan can be open to key personnel or all employees, enabling them to purchase in total from 1 per cent to 100 per cent ownership in the company with the securities acquired through cash payment, profit sharing, bonuses, or services rendered. The equity ownership allows qualifying employees to participate in and benefit from the growth of the company in return for a commitment to stay for the long haul. ESOPs allow employee-owners to share in the company's success through increased share value that can be sheltered for tax-free gain. Favourable tax treatment is available because these gains can be classified not as income earned, but as a capital gain, which is taxed at a much lower rate than income.

