

ESOP UPDATE

Information about your Employee Stock Ownership Plan (ESOP)

ESOPs and your individual taxes



ESOP participants get the advantage of deferring taxes

As a participant in an Employee Stock Ownership Plan (ESOP) you receive allocations to your account. Distributions of the value of your vested account are made after you retire or otherwise leave employment. As long as the value of your benefit remains in the ESOP trust and you have not received a distribution from the plan, you'll be deferring the obligation to pay taxes on this benefit.

ESOP distributions are similar to other retirement savings plans

ESOP accounts are treated for tax purposes like other retirement savings plans — such as a 401(k) or a traditional (not a Roth) Individual Retirement Account (IRA). Below are a few of the key considerations that you should discuss with a tax professional when it comes time for you to take your ESOP distribution.

- ⇒ **You will have a choice.** If you have more than \$ 1,000 of value you will get paperwork that provides you with options. You may choose to take the value in cash and pay your taxes or choose to roll the value over into an IRA or another qualified plan. Distributions are generally taxed like regular income in the year in which it is paid to you. If you have less than \$ 1,000 of value in your account, the plan may be permitted to send you the value without this choice.
- ⇒ **You may be able to defer the taxes.** If you choose to roll some or all of the value over into another qualified plan, you can push out the obligation to pay taxes on it until you take the dollars out in the future. You'll be required to start taking some of your retirement savings each year after you reach a certain age. (Federal rules currently set that as 70½ years of age.)
- ⇒ **Early withdrawal penalties may apply.** If you choose to take the value of your account in cash before you reach a certain age, an added tax penalty may be imposed by the Internal Revenue Service (IRS). For example, there may be a 10% federal penalty for taking funds from an ESOP or similar retirement plan before you have reached 59½ years of age. Some states have similar penalties.
- ⇒ **Get up-to-date tax advice.** These rules can change and your tax situation may be different from year to year. You are strongly encouraged to get professional advice when it is time for you to make choices about your ESOP distribution.