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A new slant in ESOP communications

By Kim Parsons

Companies experience many benefits from implementing ESOPs, but one of the most publicized is improved company results. Improved financial performance is often attributed to changes in the behavior of employees who have become owners. Employee communications is one of the keys to eliciting these behavior changes. Employees need to understand that being an employee owner gives them a personal stake in the company's future that they didn't have prior to the ESOP. However, communications need not be limited to holding employee meetings to explain ESOP basics and financial statement fundamentals.

Middle managers and supervisors occupy a unique position in a company. They are responsible for implementing senior management's vision for the company, and they are the direct link to the employees. Their position as intermediaries subjects them to some unique stresses: they are torn between the demands of top management and the demands of the work force. Research has shown that middle managers and supervisors are also the group with the highest level of cynicism about and resistance to employee ownership. However, middle managers have a unique opportunity to impact employee ownership on a direct level.

> ***"Management is doing things right; leadership is doing the right things."***
>
> ***- Peter F. Drucker***

Targeting middle management for specialized training about your company's employee ownership culture and goals through focused communications with them may accomplish two objectives at the same time. First, effective communications may dispel their fears and turn their cynicism into enthusiasm for the ESOP. Second, it may prepare them to better communicate with the employees they manage, spreading their knowledge and enthusiasm.

During his televised debate with Walter Mondale in 1984, a reporter asked President Ronald Reagan if he was too old to serve another term. Reagan, more than ready for the question, said, "I'm not going to inject the issue of age into this campaign. I am not going to exploit for political gain my opponent's youth and inexperience."

Recent regulatory developments for S Corporations

By Sandy Paavola

The "American Jobs Creation Act of 2003" (HR 2896) was recently approved by the House of Representatives' Ways and Means Committee. The HR 2896 legislation includes S corporation reforms to simplify the taxation of S corporations and expand S corporation eligibility. Included are provisions that:

- Treat three generations of family members as one shareholder
- Expand the maximum number of shareholders from 75 to 100
- Expand bank S corporation shareholders to include IRAs.

In addition, the legislation includes an ESOP-related provision permitting S corporations to use dividends (often referred to as earnings distributions) on both allocated and unallocated ESOP stock to pay ESOP-related debt. This provision reverses an IRS position and brings the use of dividends for debt repayment for employer securities in line with C corporations. This bill has not yet been voted on by the entire House, but action on it is anticipated fairly soon. The bill's primary goal is to overhaul the U.S. tax system for income earned by U.S. corporations overseas. The World Trade Organization has deemed the current U.S. system to be an unfair trade practice and has threatened sanctions against U.S. exports if the tax system is not revised soon.

Assuming the legislation is passed, the effective date of these S corporation provisions would apply to taxable years after December 31, 2003.

Many of our customers are aware of the tax advantages an S corporation brings to an ESOP.

If you would like information about the power of the S corporation ESOP, please contact us.

FASB delays implementation date for FAS 150

By Sandy Paavola

In our last issue of *Beyond the Number$*, we outlined the Financial Accounting Standards Board (FASB) rule requiring companies to expense stock option grants and other equity compensation on their financial statements. FAS 150, originally set for implementation for fiscal years after December 15, 2003, has been delayed one year. Many companies, ESOP and otherwise, complained that the new rules could put them into technical bankruptcy or fraudulent conveyance situations. FASB did not, however, indicate it would consider changing the rules.

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