

Byers General Store – Employee Stock Ownership Plan

History of ESOP's

The term “Employee Stock Ownership Plan” was first defined by Federal legislation in the Employee Retirement Income Security Act of 1974. Thus, in a sense, the ESOP is a relatively new form of plan which has existed only since September 2, 1974 when ERISA was enacted into law. In the Tax Act of 1978, ESOP's are defined as “...a technique of Corporate Finance...” Thus their purpose of benefiting both employees and the Company has been clearly defined by Congress. From 1974 through 1989, it has been estimated that 12,000 companies have installed Employee Stock Ownership Plans. This brings the total number of employees covered by ESOP's to more than 11,000,000. However, many ESOP's existed prior to 1974, even though such plans were not defined by Federal statute. Employee Stock Ownership Plans were first recognized by the Internal Revenue Service in 1952 and 1974.

Although technically only in existence since 1952, the concept of Employee Stock Ownership Plans has been in the law since 1921 in the form of Stock Bonus Plans. Stock Bonus Plans, like Employee Stock Ownership Plans, are tax-exempt trusts which are designed to enable you to own part or all of the company for which you work, without investing your own funds. The distinguishing feature of an ESOP is that an ESOP, unlike the Stock Bonus Plan, may engage in “leveraged” purchases of company stock. That is, an ESOP may acquire stock not only on a year-by-year basis, but also may borrow funds in order to purchase a block of stock.

One of the Philosophies of the ESOP is to Broaden Ownership of Capital

The ESOP is sometimes referred to as the Industrial Homestead Act. ESOP legislation, like the original Homestead Act, is designed to broaden the ownership of capital by employees.

The Homestead Act had an enormous impact upon the growth and success of the American economy. During the first half of the twentieth century, land represented the major source of wealth in the American Economy. Land represented an underdeveloped capital resource, which needed the elements of labor and tools in order to make it productive. In order to encourage the further development of this natural resource, the Homestead Act provided that any person could “homestead” up to 160 acres per person. The law provided that any person who took possession of the land and assumed responsibility for making it productive for a certain period of years would acquire full ownership of this land at the end of that time.

As a result of this legislation, hundreds of thousands of people were able to acquire capital and to become financially independent.

During the past thirty years, however, the nature of the economy has shifted from an agricultural economy to an industrial economy. As a consequence, the source of wealth has shifted from ownership of land to ownership of corporate stock.

The Employee Stock Ownership Plan, like the Homestead Act, is designed to enable employees to benefit from the ownership of capital through the investment of their talent and energy.