

Why Selling to an ESOP Costs Less than Selling to ANOTHER BUYER

Breaking down the cost differences

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INTRODUCTION

A well-structured sale of a company to an employee stock ownership plan (ESOP) can be a win for sellers, employees, and communities. Sellers get a fair price and often can defer taxation on the gain, employees become owners at no cost to them, the legacy of the business the owner built is retained and often expanded, and the company stays in the community. ESOPs do not work for every business, but they would work for many more businesses than those that use them now.

Despite this, owners of companies considering an ESOP to buy all or part of their stock are often concerned, and sometimes deterred, by the costs and complexity of setting up a plan. Selling to an ESOP is expensive, usually costing 2% to 4% of the sale price, or about $250,000 to $500,000 for most ESOP deals, but lower for simpler transactions, and much more for large companies, multi-party negotiations, and complex financing. As with all costs described in this paper, these numbers are current as of 2026. The fees are tax-deductible, but that is still undeniably a lot of money; however, it is generally a great deal less than the costs of non-ESOP sales. The cost of selling to a non-ESOP buyer generally ranges from 4% to 9% of the deal, with smaller deals at the higher end and larger ones at the lower end. Of course, these are general rules of thumb, and some deals cost less, while others cost more.

There is a widespread perception that selling to an ESOP is too costly for many companies. That is true for smaller companies and unprofitable companies. For an ESOP to work at any size, the company must have enough future earnings to pay for the costs of buying shares from current owners while having enough left over to run the business. Based on conversations with dozens of ESOP advisors, this is generally at least $1 million in EBITDA. But for companies that can do this and are large enough (generally 20–30 employees or more) to absorb the fees, ESOPs are more than competitive with most other sale options, especially given the tax benefits available to companies and sellers.

Despite this, many sellers balk at the costs of setting up an ESOP, even if they will ultimately pay more to sell to another buyer. There is an important psychological difference regarding costs that may help explain why there is greater concern about the cost of setting up an ESOP than about the cost of selling the business to another buyer. In an ESOP sale, the company pays some of the fees up front and the rest at close. While these fees are tax-deductible and thus have a significantly lower real cost, they still come up front. Most sales to other buyers are much less costly up front. In these non-ESOP sales, sellers need to pay for financial, legal, and accounting advice, and they often want a valuation to help them determine what to ask for. But the highest cost of selling a company to a non-ESOP buyer, the success fee paid to find the buyer, is taken out of the transaction costs. In some transactions, the other upfront costs come out of the transaction as well. In effect, the seller pays the fees in the form of a reduced sale price. With an ESOP, it would be as if someone had to pay their real estate agent up front before the sale. Even if an agent agreed to take a lower commission if paid up front, many sellers would prefer to have the fees deducted from the eventual sale price, even if those fees, as a percentage of the sale price, were a few percentage points higher.

The story is similar for complexity. ESOPs are qualified employee retirement plans and thus subject to various rules to qualify for tax benefits. Most of these rules are the same as for other plans, such as 401(k) plans, but there are additional requirements for how stock is valued and how a transaction's fairness is evaluated that require time and expert advice. There are also many alternative ways to structure deals, which is where much of the complexity comes from.

The numbers used in this paper were developed in 2026. You may have seen other numbers, including from prior NCEO transaction surveys, that show lower numbers, but these refer to transactions that could have been several years before the survey was filled out. The numbers in this paper are based on conversations with multiple experts in the field. There was a general consensus on the range of numbers shown here.

NONFINANCIAL CONSIDERATIONS

Selling to a non-ESOP buyer is a complex process as well, however. There are even more alternative deal structures; it can be difficult to assess buyer assurances about financing a deal; deal structures can be layered with earnouts and clawbacks; the allocation of tax consequences must be determined; and there are often other contingencies on the sale price that are generally not found in ESOP transactions.

There are, of course, also nonfinancial costs. Selling a business you have built over decades is an emotionally laden decision. What story do you want to be able to tell about the sale? Did it get the highest price at the expense of your employees or community? Did the new buyer honor the values of your business? Would the sale allow you to play a continuing role in the company if you wanted to do that? What if you only want to sell part of the business now, or there are multiple owners and only one or two want to sell now? Selling to a third party puts all of that out of your control.

To be sure, many third-party buyers will make assurances about what will happen after the sale, but these are hard to enforce and often turn out to be shallow promises. A Tennessee owner of a trucking company, for instance, sold his business to a third-party buyer who promised to keep all his employees, but a year later laid them all off. The owner decided he would build a new trucking company (Big G Express), and this time he would (and did) sell it to an ESOP to make sure that would not happen again.

An Exit Planning Institute survey[1] recently showed that most sellers of closely held companies have regrets about the sale later. That is not true for sellers to ESOPs. The NCEO's 2024 ESOP Transaction Survey found that 92% of sellers to ESOPs were happy with their decision.

1. "2023 National State of Owner Readiness Report," https://exit-planning-institute.org/hubfs/Member Center Resources/2023 National State of Owner Readiness Report.pdf.

COSTS TO SELL TO A NON-ESOP BUYER

First, let us look at what it costs to sell to a non-ESOP buyer. A key issue in selling to another buyer is whether the seller needs to find a buyer or has an unsolicited and potentially acceptable offer. Most business owners will not have an existing offer they want to pursue, or, if they do have offers, will want to solicit others to see if they can get a better deal. Smaller businesses, typically those worth under $10 million, will usually hire a business broker; larger businesses will probably use a merger and acquisition (M&A) firm. M&A firms are better at locating strategic buyers and handling complex transaction terms. M&A firms are likely to cost more than a business broker.

Breaking down business broker or M&A fees: These fees are very dependent on the size of the business. They are always negotiable. Companies worth less than $5 million typically face fees of 6% to 12% of the sale price, although some can negotiate a better deal. For larger businesses, a common amount is based on the "Lehman Formula" (named after the now-defunct investment bank, Lehman Brothers). That formula is:

- 10%–12% on the first million, plus
- 8% on the second million, plus
- 6% on the third million, plus
- 4% on the fourth million, plus
- 2% after that

For companies worth over $5 million, it can be difficult to find business brokers with experience finding buyers for businesses of that size, so M&A firms are usually needed. Typical M&A fees start at $250,000 for the first $5 million, with a percentage of the deal after that, often at least 4% to start and decreasing as the deal size increases. A $10 million business, for instance, might involve a success fee of $400,000 to $800,000. A $20 million sale would involve a success fee of $800,000 to over $1 million.

In addition to the success fee, there are several other fees:

Legal fees: Lawyers are needed to help draft and negotiate the purchase agreement, escrow, financing, contingencies, and other closing costs. Fees range from about $600 to $1,200 per hour (in 2026). These fees can easily add up to tens of thousands of dollars. There may also be regulatory approval fees for some transactions.

Accounting and tax advisory fees: Costs for preparing financial statements, tax planning, and due diligence support can add several thousand dollars and up, depending on the complexity of the transaction. For companies in the $5–$20 million range, this typically is about $100,000.

Costs to determine the fair market value of the business: While not strictly necessary, it is highly advisable to obtain a valuation before trying to sell a business. This will give the seller a much better idea of what is realistic to ask. These fees can range from about $10,000 and up, depending on the scope of the engagement.

Due diligence fees: Most private equity (PE) firms and some corporate buyers charge the seller a due diligence fee for the work involved in assessing potential corporate liabilities, risks, and related issues. If the buyer assumes these fees, however, the sale price is likely to be reduced to reflect that. Depending on the business, these fees can reach tens of thousands of dollars.

Costs of selling a business in a non-ESOP transaction by firm value (M = million, K = thousand)				
Firm value	$10M–$25M	$25M–$50M	$50M–$100M	Over $100M
Broker/investment banker fees	5%–8%	4%–6%	3%–5%	2%–3%
Legal fees	$40K-$75K	$75K–$200K	$150K–$400K	$400K–$1M
Accounting and advisory	$25K–$50K	$50K–$150K	$100K–$250K	$250K–$600K
Due diligence	$25K–$50K	$50K–$150K	$100K–$350K	$300K–$750K
Estimated low cost	$600K	$1.2M	$1.9M	$4M
Estimated high cost	$2.2M	$3.5M	$5.0M	$10M
Total as a percentage of the sale price	6%–9%	5%–7%	4%–5%	3%–4%

The table above is based on materials from a variety of sources, including the Association for Corporate Growth, CapIQ, and other sources compiled for us by an M&A firm that requested anonymity. It summarizes typical cost ranges by size for transactions of $10 or more. Transaction costs data for sales under $10 million were unavailable, but they would be higher as a percentage of the sale price.

Are Fees Tax-Deductible?

The seller can deduct all the fees with the possible (and major) exception of the success fee to find a buyer. The common wisdom formerly was that 70% of the fee could be deducted up front and 30% capitalized over time. Two private letter rulings in 2023 (PLR 202308010[2] and PLR 202324001[3]) ruled that only the buyer could take the deduction, however. Private letter rulings apply only to the specific case and do not have regulatory weight, but they may indicate how the IRS might act in the future.

Of course, buyers may want to take the deduction themselves. In theory, if they do, they should pay more to reflect that, but this is not always the case.

Contingencies

A key difference between sales to ESOPs and sales to other buyers is that sales to non-ESOP buyers are often structured as a flat amount paid up-front combined with an additional contingent flat amount as an earnout, usually paid if profit or revenue reaches or exceeds a stated target. PE firms usually require a portion of the proceeds to be reinvested in the PE firm, usually 10% to 50%. That means the promised amounts may not be what the seller gets paid. ESOP sales are structured as a fixed number based on an outside appraisal, although some ESOP deals have a clawback provision if the company significantly underperforms. These provisions have fortunately not been often needed.

Flexibility in How Much Is Sold

Finally, it is important to note that sales to third parties are almost always for a controlling or 100% interest. Sellers who want to sell only part of the company will find it challenging to find buyers at an acceptable price. ESOPs, by contrast, can buy any percentage of the company.

Costs of Selling to an ESOP

Sales to an ESOP involve a variety of costs:

- Financing fees
- Feasibility advisor
- Valuation
- Legal fees for plan design, document filing, and deal structure
- Accounting and tax planning fees
- Fees for trustees who act to represent the ESOP. These include legal fees for advice to the trustee, fees to cover fiduciary risk, time spent evaluating the appraisal, and time spent negotiating deal terms, such as interest rates on seller notes, warrants, etc.

2. https://www.irs.gov/pub/irs-wd/202308010.pdf.
3. https://www.irs.gov/pub/irs-wd/202324001.pdf.

Feasibility Study Components

Detailed feasibility studies often involve a week or more of consultant time. Elements of the study include:

- How can the deal be financed? (Exploring and modeling options for bank debt, seller notes, warrants, cash contributions to the plan, mezzanine debt, and SBA backing.)
- S vs. C issues: 1042 or not, tax issues on conversion, how each choice affects financing, especially if the ESOP is not buying 100%
- How much should (or can) the ESOP buy?
- Multi-stage transactions vs. 100% transactions
- Financial feasibility, including balance sheet and loan covenant impacts (modeling the impact of different possible financial futures)
- Seller note issues (rate, whether it would be repaid after senior debt, term)
- Impact on family members, if any
- Plan rule alternatives
- Comparison to a non-ESOP sale
- Equity rights or direct equity for key people
- Preliminary valuation?
- Impact on other benefits/compensation, including what ESOP accounts might look like over time
- Payroll issues
- Anti-abuse issues, if applicable
- Section 1042 investment options, if applicable

Feasibility studies typically cost between $30,000 and $60,000.

Success Fees

A major variable in an ESOP sale is whether sellers pay a success fee. If a success fee is paid, it will add to the cost, although the fees for ESOP companies tend to be about 2% of the transaction, rather than the much higher fees for other sales. If a seller determines that a sale to an ESOP is the best route, then the seller doesn't need to pay an advisor to find a buyer. On the other hand, many sellers are unsure whether they want to sell to an ESOP or to another buyer, in which case a success fee is reasonable.

Financing

Structuring and (if a seller note does not completely finance the deal) finding financing adds another layer of costs:

- Bank loan negotiations may involve legal fees from both the ESOP attorney and the bank's attorneys.
- Seller note structure (term, rates, warrants)
- Obtaining non-bank financing. M&A firms typically charge 2% to 3% of the amount raised. Companies may not need to pay to find ESOP senior debt financing. Many banks are interested in making ESOP loans, and the NCEO maintains a lender directory[4] to help find them, although there will be bank fees. In some cases, however, fees may be paid to advisors to locate senior debt.
- Loan origination fees from senior lenders range from .25% to 1%.
- Bank attorney fees range from $25,000 to $50,000, depending on the loan size and the bank.

Plan Structure and ESOP Legal Advice

- Deciding on plan rules
- Drafting plan document (assuming that this simply makes changes to a standard plan, it should not cost much)
- Submitting to the IRS
- Advising the company/seller on deal structure/terms
- Fees will depend on how many lawyers are simultaneously involved in meetings and how much work junior attorneys can handle. Fees range from $25,000 to $50,000 and up for

4. See https://www.nceo.org/member/lender-directory (member login required).

drafting documents, with additional fees for time spent in negotiations and deal structuring.

Trustee Issues

- Hiring the appraisal firm
- Reviewing the appraisal or fairness opinion
- Negotiating the terms of the deal with the board/seller
- Cost of ESOP attorney in this process
- Reviewing the appraisal, reviewing terms and documents, and negotiating transaction fees will typically range from $30,000 to $70,000 for a $10–$20 million sale, increasing as the size of the deal increases by about $10,000 for each $20 million increment.

Company/Personal Lawyer

A company and/or personal attorney will usually also be involved to review and possibly be involved in any negotiations and deal structuring.

Appraisal/Fairness Opinion

Outside appraisal firms will charge $20,000 to $50,000 for the initial valuation for most deals.

1042 Planning, If Needed

Sellers to ESOPs who choose to take advantage of the tax deferral on the sale to an ESOP in a C corporation that owns 30% or more of the stock after the sale may want to hire a financial advisor to help them create and manage a portfolio.

Tax Deductibility of Fees

All of the costs paid for by the company are tax-deductible, so the actual costs are about 60% of the total nominal costs.

Total Costs

Adding all these fees together suggests total (but deductible) costs of about 2% to 4% of most ESOP deals, with the percentage inversely related to deal size. That means that in 2026, most deals cost between $250,000 and $500,000, but some deals cost significantly more if they are for larger and/or more complex transactions, and could be considerably less for simple transactions for smaller companies. That is substantial, but less (and often much less) than what most sellers will pay for a non-ESOP sale.

REDUCING COSTS

Will AI Bring Down Costs?

Experts we spoke with for this paper do not expect that artificial intelligence will have a major impact on the costs of setting up an ESOP in the near future and will have little or no impact on the costs of selling a business another way. But AI could reduce some costs of setting up an ESOP and make it easier to decide whether and how to proceed.

One area where AI is already making some inroads is feasibility assessments. It can help analyze inputs and project outcomes. We expect that there will be increasingly sophisticated interactive platforms that allow business owners to do prefeasibility assessments with detailed results. These assessments, however, will not substitute for expert advice, both because AI systems are still likely to miss some key issues and because getting advice from experts will still be necessary because each case is different.

Another area where AI can be helpful is reviewing valuation reports and legal documents. AI systems could help ensure that all inputs are properly assessed and may be able to quickly analyze large datasets to look for such things as comparable companies, as well as potential inconsistencies or errors in reports and documents.

It might seem that an area where AI could reduce costs is preparing documents and submitting forms to the government. In fact, however, these documents are already largely based on templates that simply need tweaking for the individual companies to complete. This process does not represent a major aspect of ESOP costs.

Reducing Costs of an ESOP Sale

The cost of setting up an ESOP is at least partially within the seller's control. There are several decisions the seller can make to help limit costs.

Success fees: First, consider whether paying a success fee is really necessary. The best argument for a success fee is when the seller is unsure about the merits of selling to an ESOP compared to selling to another buyer. In these cases, it makes sense to hire an advisor to look for other buyers as well as to compare those potential sales to selling to an ESOP. Because the advisor is doing this additional work, it is reasonable to pay the additional fees.

On the other hand, if the seller is sure that an ESOP is the best route, there is no reason to pay someone a percentage of the transaction to locate a buyer when the buyer has already been located. Some ESOP advisors only work on a success fee basis, but many work on a fee-for-service basis. The NCEO maintains a service provider directory that can help locate experts in the field. We recommend having conversations with at least three providers in each field, including legal advice, a trustee, and a feasibility consultant, before hiring them.

Prefunding: Second, consider prefunding the ESOP. In this arrangement, the company sets up an ESOP and contributes cash to it, typically for two or three years. The cost of setting up an ESOP that does not purchase stock is modest and often can be done for $50,000 or less. The ESOP would accumulate cash until the end of the period, at which time the company could borrow additional funds to complete the transaction. This reduces the amount of leverage needed and puts some of the elements needed to complete the transaction already in place.

Financing: Financing is a third area that can help keep costs down. If the entire transaction is seller-financed, then the fees associated with bank loans and, in some cases, advice on finding sources of capital, can be eliminated. It is also important to talk to multiple banks to find the banks that offer the best fees as well as the lowest rates.

Educate yourself: Another way to keep costs down is to get educated in advance. The more you know about the process, the less time you will need to spend with advisors explaining the process to you at their hourly fees.

Reduce complexity: Finally, consider whether some of the more complex elements of transaction structure are worthwhile. For instance, many ESOP deals are structured with warrants. With warrants, the seller takes a lower rate of interest than would otherwise be considered fair in return for the right to purchase shares at the transaction price for some number of years into the future. In other words, the seller is essentially buying a stock option in the company that can be exercised for some number of years. The company would redeem the warrant, and the seller would get the difference between their redemption price and the transaction price. This can be very beneficial for the seller if the share price is expected to continue to rise. Because warrants are a more complex financial instrument with greater risk than a simple rate of interest, they require legal and financial advice as well as a comprehensive review by the trustee as to their relative fairness in the transaction. This adds additional transaction costs.

SUMMING UP

Selling a business is a complex and expensive process, no matter how you do it. There are several reasons a seller might decide whether an ESOP is the right choice. Concerns about legacy and a desire to reward the people who helped build the company are usually at the forefront of reasons why business owners sell to an ESOP. Selling to an ESOP can also allow the seller to defer taxes on the gain by reinvesting in the stocks and bonds of US operating companies. The only way that a non-ESOP sale could qualify for a deferral is if the seller accepted stock in the acquiring company in exchange for stock of the seller's company. A large majority of ESOP transactions are priced competitively with what non-ESOP buyers would pay. On the other hand, some companies could sell for significantly more to a strategic buyer than the ESOP could pay. Because ESOP sales are usually funded at least in part by seller notes, sellers must be comfortable with being paid for at least part of this sale over time with interest. Outside buyers might provide more or all of the money up front, although many sales do involve contingencies.

All of these considerations should be more important than transaction costs. Ultimately, transaction costs will always be a small percentage of total costs, whether the sale is to an ESOP or to another buyer. When making a choice, it makes sense to put the cost in the context of all the generally much more important issues involved in a sale.

NCEO Resources on Selling to an ESOP

Selling to an ESOP and Financing the Deal

https://www.nceo.org/publications/selling-esop-financing-deal

This book explores issues in setting up and financing an ESOP sale.

The ESOP Pre-Feasibility Toolkit

https://www.nceo.org/resource-toolkits/esop-pre-feasibility-toolkit

The toolkit is a guide to articles, publications, and tools, including an ESOP calculator, to help you determine whether an ESOP is worth further exploration.

About the NCEO and the Author

We are the National Center for Employee Ownership (NCEO), a nonprofit organization that has been supporting the employee ownership community since 1981. We have thousands of members because we help people make smart decisions about employee ownership, with everything from reliable information on technical issues to inspiration to help companies reach the full potential of employee ownership.

We generate original research, facilitate the exchange of best practices at our live and online events, feature the best and most current writing by experts in our publications, and help employee ownership companies build ownership cultures where employees think and act like owners.

Whether you are considering employee ownership, managing an existing plan, or advising clients, we can help. Our members have access to all of our online resources, and we are committed to providing extensive materials for anyone interested in learning more about employee ownership, from people considering employee ownership to decision-makers at employee-owned companies to ESOP participants to journalists to stock plan administrators and other service providers. We welcome everyone to sign up for our twice-monthly email bulletin and to visit our blog.

Our staff covers the nation from multiple locations in the US, and our board includes representatives from employee-owned companies and the professional advisors who serve them.

We are supported almost entirely through membership fees and our activities, but we do accept donations, which are tax-deductible (we are qualified as a 501(c)(3) nonprofit charitable organization).

Corey Rosen

Corey Rosen is the NCEO's founder and former executive director and now is its senior staff member. Corey has spoken on various subjects related to employee ownership all over the world with government, business, and union leaders, and he is regularly quoted in leading magazines and newspapers. He has appeared on national television and radio programs and also has authored four books on employee ownership, plus more than 100 articles for various business, academic, and professional publications. He has authored or coauthored several of the NCEO's practical and research publications. He holds a PhD in political science from Cornell University.

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