



Legacy by Design, LLC

Comparison of Monetary Incentives

WORKSHEET

Succession Planning

Farmers, Ranchers, & Family Business Owners

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Comparison of Monetary Incentives



Monetary Incentive	Effect on Employer Cash Flow	Ownership Dilution	Employee Motivation	Employer's Tax Deduction	Employee's Tax Consequences
Restricted Stock	None. Additional stock issued or treasury shares are transferred to employee.	Yes, when restrictions lapse.	Usually requires employee to fulfill a service requirement to receive any benefit. Also motivates to perform since employees benefit from stock appreciation.	Deduction equal to value of stock when restrictions lapse or when employee elects to recognize income under IRC Sec. 83(b).	Ordinary income when restrictions lapse or Section 83(b) election made. If 83(b) election made and executive fails to meet restrictions, no offsetting deduction.
Incentive Stock Option	None. Additional stock issued or treasury shares are transferred to employee.	Yes, when option is exercised.	Employee remains and performs because he or she participates in stock appreciation. Also must meet holding requirement to obtain long-term capital gain treatment.	None, unless employee makes disqualifying disposition.	Capital gain when stock is sold. Ordinary income equal to option spread when exercised if disqualifying disposition. AMT adjustment at exercise date. FICA and FUTA tax will not apply to the option spread.
Nonqualified Stock Option	None. Additional stock issued or treasury shares are transferred to employee.	Yes, when option is exercised.	Remains and performs because employee participates in stock appreciation. However, no service requirement.	Compensation deduction equal to the option spread when employee exercises.	Ordinary income equal to the option spread when exercised.
Stock Appreciation Rights	Value of SAR paid in cash or stock. Can be paid lump sum or in installments.	Yes, if paid in stock.	No benefit to employee until after vesting period. Remains and performs because compensation based on stock appreciation.	Compensation deduction in year of transfer equal to cash or value of stock transferred.	Ordinary income equal to cash or stock received.

Monetary Incentive	Effect on Employer Cash Flow	Ownership Dilution	Employee Motivation	Employer's Tax Deduction	Employee's Tax Consequences
Phantom Stock	Yes, value of stock (or its appreciation) at fixed date is paid in either cash or stock. Can be paid lump sum, installments or deferred until future date.	Yes, if paid in stock.	No benefit to employee until after vesting period. Remains and performs because compensation based on stock appreciation.	Compensation deduction in year of transfer equal to cash or value of stock transferred.	Ordinary income equal to cash or stock received.
Nonqualified Deferred Compensation Plan	Yes, payment when plan event occurs.	None.	Minimal. Compensation generally based on past services, but plan may include service requirements.	Compensation deduction when executive recognizes income.	Ordinary income generally when the right to the compensation vests.

