

Comparison of the Different Types of Equity Awards



By Laurence Schiffman, CFP®

If you hold different types of equity awards, are comparing job offers, or can choose which award type(s) you receive having a good understanding of how each type of award differs from one another will allow you to make the most informed decisions. To help, we've put together a side-by-side comparison to simplify this for you.

Taxation	Restricted Stock	RSU	Phantom Stock	ISO	NSO/NQSO	SAR
At Grant	None*	None	None	None	None	None
At Vesting	Taxed as wages*	Taxed as wages	Taxed as wages	None	None (unless discounted)	None (unless discounted)
At Exercise	N/A	N/A	N/A	FMV of stock – Strike Price is included for AMT purposes only	FMV of stock – Strike Price is taxable as wages	FMV of stock – Strike Price is taxable as wages
At Sale	Increase/decrease after vesting is subject to Capital G/L; holding period starts at vesting*	Increase/decrease after vesting is subject to Capital G/L; holding period starts at vesting	N/A if cash-settled; same as RSU if share-settled	Long-Term Capital G/L if held for one year from exercise and two years from grant (otherwise as Ordinary Income)	Increase/decrease after exercise is subject to Capital G/L; holding period starts at exercise	N/A if cash-settled; same as NSO if share-settled
Eligible for 83(b) Election?	Yes	No	No	Yes	Yes	No
Tax Basis	FMV at vesting*	FMV at vesting	N/A if cash-settled; same as RSU if share-settled	Strike price	FMV at exercise	N/A if cash-settled; same as NSO if share-settled
Subject to FICA?	Yes	Yes	Yes	No	Yes	Yes
Dividends Before Vesting	As wages*	As wages when paid out**	Same as RSU	N/A*	N/A*	N/A

Considerations	Restricted Stock	RSU	Phantom Stock	ISO	NSO/NQSO	SAR
Advantages	Guaranteed to be worth something at vesting, unvested shares are eligible to receive dividends, eligible for 83(b) Election, and has voting rights	Guaranteed to be worth something at vesting	Same as RSU	Recipient has control over the timing of taxation, eligible for LTCG treatment and 1036x, and not subject to FICA	Eligible for 1036x, allows for control over timing of taxation, and vested shares may be held post-termination of employment**	No cash is required to exercise and allows for control over timing of taxation
Disadvantages	Unless an 83(b) Election was made, recipient has no control over the timing of taxation	No control over the timing of taxation and not eligible for 83(b) Election or dividends**	Same as RSU and may be cash-settled	Could expire worthless, cash is needed to exercise, subject to AMT, not eligible for dividends, and must be exercised within three months (or less) of termination	Could expire worthless, cash is needed to exercise, and not eligible for dividends	Could expire worthless and not eligible for dividends
Most advantageous when...	Company pays dividends, the stock price is expected to be little changed (or lower) at vesting, or when stock price is expected to increase significantly and an 83(b) Election is made	Stock price is expected to be little changed (or lower) at vesting	Same as RSU	Stock price is significantly higher at exercise, stock is sold in a Qualifying Disposition, exercised using a 1036x, or when trying to manage tax bracket	Stock price is significantly higher at exercise, exercised using a 1036x, when trying to manage tax bracket, or when making an 83(b) Election for privately-held stock	Stock price is significantly higher at exercise, company is privately-held, or when trying to manage tax bracket

* Different when an 83(b) Election is made | ** Some plans allow, but not by default

Acronyms/Abbreviations

RSU – Restricted Stock Unit

ISO – Incentive Stock Option

NSO – Nonstatutory Option

NQSO – Nonqualified Stock Option

PSU – Performance Share Unit

SAR – Stock Appreciation Right

FMV – Fair Market Value (i.e. stock's price)

AMT – Alternative Minimum Tax

G/L – Gain/Loss

FICA – Federal Insurance Contributions Act (i.e. Social Security and Medicare taxes)

LTCG – Long-Term Capital Gain

1036x – Section 1036 exchange

Legal Disclaimer: We put a great deal of time in researching the information we write about to ensure that it is accurate and current. Nonetheless, the content on this website is not intended to provide tax, legal, accounting, financial, or professional advice and readers are advised to seek out qualified professionals that provide formal advice on these topics and for your specific circumstances. In addition, while we attempt to update information as legislation changes, we cannot guarantee that the information on this website has not been outdated or otherwise rendered incorrect by subsequent new research, legislation, or other changes in laws. Furthermore, tax implications discussed in our articles are related to federal taxation; state-specific tax implications may be different. Traverse Planning and its affiliates shall not have any liability or responsibility to any individual or entity with respect to losses or damages caused, or alleged to be caused, directly or indirectly, by the information or resources contained on this website.