Stock Bonus v. Phantom Stock Chart

The following chart was prepared by Danielle M. Johnson, Esq. and Wrede H. Smith, Esq. (2017)

	STOCK BONUS				PHANTOM STOCK			
	EMPLOYER		EMPLOYEE		EMPLOYER		EMPLOYEE	
	PRO	CON	PRO	CON	PRO	CON	PRO	CON
Incentive	Incentivize/ reward and retain good employees	Might be required to buy back the stock and have the funds to do so	Incentive and reward – can take pride in being an "owner"	Left with stock and possibly no market to sell it if Company won't buy it back	Incentivize/ reward and retain good employees	Company will have to make sure it has cash available for the payout	Incentive and reward	Not an owner
Shareholder Issues		Stock issued creating more shareholders, which makes ownership more complicated. Company required to share its books/records with minority shareholders	Employee has some voting capabilities and can get more access to Company books and records		No stock is issued, no new shareholders, nothing changes as far as ownership and governance. Not required to share financial information.		Don't have to worry about a market to sell the shares or if the Company will buy the shares	
Costs and Fees		Costs include valuation of stock, draft of stock certificates, a shareholder agreement, and a stock bonus agreement			Preparation costs to design and draft phantom stock agreement	Valuation of Company when phantom stock is awarded and again when employee retires.		
Tax Issues	When stock is issued, employer can deduct the value because it's considered ordinary income (can add restrictions to spread out deductions and incentivize employee to stay)		Additional compensation; Company can put restrictions on the stock bonus (ie vesting) which might allow employee to spread out recognition of ordinary income	The stock bonus is taxed as ordinary income to the employee	When the payout is made, the employer can deduct it because it's considered ordinary income		Additional compensation from Company	The payout is taxed as ordinary income and will likely be received as one lump sum payment
Sale		The more shareholders the more potential issues upon a sale of the Company	More power in case the Company is sold		Fewer shareholders, so it's easier to sell the Company to a potential buyer			