THE PERFECT PLAN®

Phantom Stock vs. Stock Options vs. Real Equity

The Business Owner's Comparison Checklist

Three ways to give key people a stake in what they help build — and only one of them leaves your cap table alone. Use the comparison below to narrow the field, then work the decision checklist at the back before you spend a dollar on documents.

Design question	Phantom stock	Stock options	Real equity
Does the executive receive actual ownership?	No. A contractual promise to pay cash.	Yes, once the option is exercised.	Yes, at grant or purchase.
Does it dilute your cap table?	No.	Yes, at exercise.	Yes, immediately.
Voting rights and control	None.	Yes, once shares are issued.	Yes.
Access to books, records and shareholder remedies	No.	Yes, as a shareholder.	Yes.
Executive out-of-pocket cost	None.	Must fund the strike price.	Purchase price, or tax on a bargain grant.
Executive tax at grant	None.	None if struck at fair market value.	Ordinary income on any discount unless 83(b) is planned.
Executive tax at payout	Ordinary income, reported on Form W-2.	Ordinary income on the spread for an NQSO; AMT rules apply to ISOs.	Capital gains on sale if the holding period is met.
Employer tax deduction	Yes, in the year the cash is paid.	Yes on the NQSO spread; none for a qualifying ISO.	No deduction. You are selling an asset.
Payroll taxes (FICA / FUTA)	Yes.	Yes at NQSO exercise.	No.
Is IRC 409A in play?	Yes. Triggering events must be fixed in writing before the first grant.	Only if the option is discounted or later modified.	No.
Cash flow at the triggering event	The company writes the check.	The company collects the strike price.	The buyer pays. Company cash is untouched unless it redeems.
Valuation required	Yes. A written formula or an annual appraisal.	Yes. A defensible 409A valuation.	Yes, and it is negotiated.
Risk of a minority shareholder dispute	None.	Yes, once exercised.	Yes.
Repurchase or buy-sell obligation	Not applicable.	Usually required.	Required.
Effect on S-corp or LLC structure	None. It is not a second class of stock.	Watch shareholder count and class-of-stock rules.	Shareholder limits and class rules apply.
Can the obligation be funded in advance?	Yes. COLI, a sinking fund, or a taxable reserve.	Not typically.	Not applicable.

Design question	Phantom stock	Stock options	Real equity
Difficulty of unwinding a bad fit	Low. Amend the plan or let units lapse.	Medium. Options must be cancelled or bought back.	High. You are buying a partner out.
Best fit	Retaining key people without giving up control.	Growth companies heading toward a liquidity event.	True partners and named successors.

Decision Checklist

Phantom stock is probably your answer if you check most of these

- ☐ You want to reward growth without handing over ownership, votes, or access to company records.
- ☐ You have two to ten key people you cannot afford to lose over the next five to ten years.
- ☐ You can define company value with a formula both sides will accept, and you will update it annually.
- ☐ You have a realistic exit or liquidity horizon, and vesting can be built backward from it.
- ☐ You are prepared to pre-fund the future liability rather than pay it out of operating cash.
- ☐ Your S-corp or LLC structure makes issuing more equity awkward, expensive, or impossible.
- ☐ You want the ability to amend or discontinue the program without negotiating a shareholder buyout.

Look harder at options or real equity if

- ☐ The person is a true partner who should share downside risk as well as upside.
- ☐ You are venture-backed or expect to raise institutional capital.
- ☐ Your key person specifically wants capital gains treatment and will trade cash certainty for it.
- ☐ You are already heading toward an ESOP or an outright sale to management.

Before you sign anything, confirm

- ☐ Full-value or appreciation-only was chosen deliberately, not inherited from an old template.
- ☐ The valuation formula is written into the plan document, with a worked numerical example.
- ☐ Triggering events are 409A-compliant and documented before the first grant is made.
- ☐ Vesting matches your actual exit timeline, not a generic ten-year cliff.
- ☐ The payout is funded, or you have accepted the cash flow hit in writing.
- ☐ Every participant gets an annual statement showing what their units are worth today.

Next step

Schedule a Perfect Plan® initial meeting — a straightforward conversation about your key people, your timeline, and what a plan would actually cost. Call (610) 292-9330 or email info@schiffbenefits.com.