

# Are there alternatives to ESOPs?

*Through long-term compensation schemes such as ESOPs, employees are encouraged to take an active part in the company's growth.*

*Although ESOPs have proven to be an excellent tool for retaining talent, they are not without drawbacks*

## THE DRAWBACKS OF ESOPs INCLUDE:

1. Liquidity available only on exit scenarios (secondary/ buyback /IPO)
2. Perquisite tax payout for the employee on exercise without any inflow.
3. Buyback restrictions.
4. Challenges for Employer in tracing ex-employees who have exercised.
5. Restricted only to employees - inability of other contributors such as consultants and advisors to participate.

*To overcome the aforementioned issues, the company can consider alternatives to ESOP in the form of **CASH SETTLED SCHEMES**. Cash-settled schemes such as Phantom Stocks and SARs have recently acquired traction and have become an integral part of the cap table.*



## WHY USE A CASH SETTLED SYSTEM?



They get value of the stock price without captable hassles.



Pay out settled in cash.



Taxability only on receipt of monetary consideration unlike ESOP.



Less Regulatory oversight and can be extended to consultants and advisors.

***These Schemes are not just for start-ups; they can be used by any company that wishes to implement a structured strategy for rewarding its employees, consultants and advisors.***

***Contemplating implementation for your organisation? give us a call right now. Our team at Annveshan has the expertise and experience to guide you through the entire process, from advisory to implementation.***

### For more information,



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