Stock Options: ISOs vs. NQOs

Q: Can a member of the board of directors receiving a stock option as compensation for board member service receive an incentive or statutory stock option (an "ISO")?

A: No. A board member who is just a board member, and not otherwise an employee of the company cannot receive an ISO. Only employees can receive ISOs.

Here is how the ***IRS puts it***: "A **director of a corporation** is not an employee with respect to services performed as a director."

The Differences Between an ISO and an NQO

In case you are not aware of the primary differences between an ISO and a non-qualified stock option "(NQO"), here are the primary differences:

- Incentive stock options can potentially generate better tax consequences for the employee, if certain conditions are met. But the spread on the exercise of an ISO can give rise to significant alternative minimum tax consequences.
- NQOs can be better for the issuer, because the spread on exercise is a deduction to the company.

If you would like to read more about the differences between ISOs and NQOs, below are some other blog posts I've written on this topic:

Incentive Stock Options vs. Nonqualified Stock Options

Top 6 Reasons to Grant NQOs Rather Than ISOs