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Enhancing Your Employee Compensation Plan – Digital Currency and Other Non-Cash Alternatives

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A key concern for many startups is how to fairly compensate staff, especially in the early stages when the budget is tight. Many businesses have taken advantage of the popularity of emerging blockchain technology and digital currencies to address this issue. Companies such as GMO Internet Group, a Japanese company, recently announced it would allow its employees to opt in to be partially compensated in Bitcoin. Similarly, a company from Waterloo, ON developed and implemented a Bitcoin payment plan as part of their employee compensation package in 2014. Ideas such as these are certainly creative and present employers with an opportunity to attract tech savvy talent without breaking the bank, especially for tech startups in the early stages of development. It is clear that many companies have been building off of these ideas over the last few years and as a result we are beginning to see more and more companies offering their employees digital compensation packages as an alternative to cash. Although this type of compensation may be helpful to a growing business with a modest budget, the apparent volatility of these currencies presents important risks to employees. Therefore this may not always be the best method of compensation. The technology being used may be new but the use of alternative compensation plans and non-cash compensation has been around for quite some time.

For example, depending on the business, some of the many options employers may consider when deciding how to fairly compensate their employees include:

- stock option plans;
- phantom share plans;
- performance share units;
- share appreciation rights; and
- employee share purchase plans.

For those without the technical means or who are wary of hopping on the Bitcoin bandwagon, equity compensation plans can be used to achieve some of the same objectives. One example is a phantom share plan. As opposed to more traditional stock option plans, this type of compensation is a popular option for employers who do not necessarily want to issue shares right away (or at all). Rather than granting employees options to buy shares at a set price, employees would receive an account which would be credited with an agreed upon number of phantom "shares". The parties can negotiate the terms of the phantom shares and decide how and when the shares will vest. When the time comes, the value of the phantom shares can be paid to the employee in cash or in shares.

Equity compensation plans, such as phantom share plans, or digital currency compensation, such as the one most recently implemented by GMO Internet Group, are creative ways to help your startup in the early growth and development stages. Not only can employers attract talented and motivated employees with these non-cash incentives but it also means that they won't be bogged down by heavy salary obligations. If your company is considering a creative non-cash compensation plan, special attention should be given to any potential tax consequences related to the adoption of such a plan. It is important to fully understand and navigate the tax limitations of these options before offering them to employees. In any event, non-cash compensation plans can make for some of the best motivational tools. Aside from giving your employees the opportunity to buy into your company's ideas and get behind your brand, the overtime hours don't seem to hurt as much when you have some skin in the game.

Paul is a lawyer in the Business Law Group at Perley-Robertson, Hill & McDougall. He has a wide range of practical legal experience including assisting in various matters in the areas of securities, mergers and acquisitions, and general corporate and commercial law. Fluently bilingual, Paul is proud to be able to represent and assist clients in both of Canada's official languages.

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