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Grant

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What is a Grant

A grant is an award, usually financial, given by one entity (typically a company, foundation, or government) to another, often an individual or a company, to facilitate a goal or incentivize performance. Grants are essentially gifts that do not have to be paid back, under most conditions. These can include [education loans](#), research money, and [stock options](#).

Some grants have [waiting periods](#), called [lock-up](#) or vesting periods, before the grantee can take full ownership of the financial reward.

For businesses, a grant usually refers to the award of [options](#) on the company's stock given to an employee to elicit loyalty and incentivize strong job performance. Sometimes, actual



BREAKING DOWN Grant

Stock option grants are usually offered to employees after they have worked at the company for a set period of time. Each company decides how its grant program operates, but most of the time employees must continue to work for the company and cannot exercise their granted options (sell their granted [shares](#)) for a set period of time.

Often, grants follow a [vesting](#) schedule where rights to the financial rewards accrue over time. For example, an employee remains with the company and becomes 50% vested in the reward. At that point, the employee has [nonforfeitable](#) rights to half the reward, even if employment is ended.

For more details on stock option grants and tips on determining the best time to exercise them, read CNN Money's "[Employee stock option plans](#)."

Why Offer Stock Option Grants?

From the employer's standpoint, the idea behind stock option grants is to give employees the incentive to align their interests with that of the [shareholders](#).

From the employee's standpoint, a stock option grant is an opportunity to purchase stock in the company for which he or she works at a lower price. Typically, the grant price is set as the [market price](#) at the time the grant is offered. It is advisable for an employee to purchase a stock option if the market price of the stock goes up in value: the grant price is still the same, so the employee is purchasing a stock at a lower price than market value. In this way, grants are similar to [call options](#), but without an [expiration date](#).

Qualified vs. Non-Qualified Stock Option Grants

[Non-qualified stock option \(NSO\)](#) grants can be transferred to a child or a charity, depending on the specific company's policies. Non-qualified stock option grants are tax [deductible](#) by the company that provides them. Since the grant is provided at a specific price, which is usually lower than the [market value](#) for the company's stock, employees who choose to take advantage of this opportunity pay income tax on the difference between these two prices upon purchase. It's important to note that employees are not subject to taxes when the option becomes available to them; instead they only pay taxes when they purchase a stock option.