Pillar Legal Tech Law Blog[1]
Should co-founders always impose vesting?

Yes, co-founders should always impose vesting on their equity. Life happens—one founder may leave early, whether due to a change in circumstances, a disagreement, or simply a loss of interest. If there's no vesting, that departing founder could walk away with a significant portion of the company's equity, despite no longer contributing to the business. This situation often creates what's known as a **zombie founder**—a former co-founder who still holds a large ownership stake but is no longer involved in the company's success.

What is vesting?

Vesting is a mechanism that requires founders to earn their equity over time, typically through continued service to the company. A standard vesting schedule is **four years with a one-year cliff**, meaning a founder must stay at least a year to earn the first 25% of their shares. After that, the remaining shares vest monthly or quarterly over the next three years.

Why is vesting important for startups?

- **Prevents zombie founders** – If a founder leaves early, their unvested shares return to the company, avoiding unnecessary dilution and ensuring remaining team members are rewarded for their contributions.
- **Attracts investors** – Investors expect founders to be locked into a vesting schedule. A team with unvested shares is more aligned with long-term success.
- **Maintains fairness** – Vesting ensures that equity is earned through ongoing work rather than upfront allocation, reducing resentment among remaining founders.

Does vesting mean I don't own my shares?

No. With proper structuring, founders still technically own their shares, but the company has the right to repurchase unvested shares at cost if a founder leaves before fully vesting.

What is an 83(b) election, and why does it matter?

When imposing vesting, U.S. founders **must file an 83(b) election with the IRS within 30 days** of receiving their shares. This election tells the IRS to tax the shares **at the time of grant** rather than as they vest. If an 83(b) election is not filed, founders may owe taxes on each vesting event

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at the **then-current fair market value** of the shares, which could lead to a massive tax bill if the company's value increases.

Bottom line

Vesting is an essential protection for co-founders, investors, and the long-term success of a startup. It ensures that equity is distributed fairly and that only those actively contributing benefit from the company's growth. Just don't forget to file your **83(b) election** on time!

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