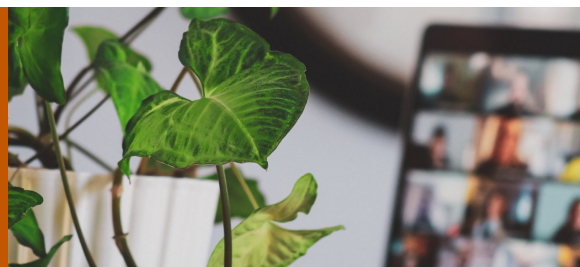


Receiving Equity Compensation? Plan Ahead for Taxes

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Stock-based compensation has become increasingly common as companies compete to attract and retain talent. Whether you've received Restricted Stock Units (RSUs), Incentive Stock Options (ISOs), or Nonqualified Stock Options (NSOs), understanding how each is taxed can help you avoid surprises and identify valuable tax planning opportunities.

Restricted Stock Units (RSUs)

RSUs are an unsecured promise by your employer to deliver company stock once certain vesting requirements are met, typically based on continued employment or performance milestones.

Tax Treatment

Unlike stock options, you don't purchase RSUs—they simply become yours when they vest.

When RSUs vest:

- The fair market value of the shares are generally treated as ordinary wage income.
- Payroll taxes are withheld, and the income is reported on your Form W-2.
- Any future appreciation (or loss) after vesting is generally treated as a capital gain or loss when the shares are sold.

Planning Considerations

- Review the tax withholding at vesting—it may not fully cover your actual tax liability. Consider selling shares immediately ("sell-to-cover" arrangement) to help fund withholding, but keep in mind the sale can create a separate capital gain or loss.
- If holding the shares, remember that future gains may qualify for favorable long-term capital gain treatment if held for more than one year after vesting.

Incentive Stock Options (ISOs)

ISOs allow employees to purchase company stock at a predetermined exercise price (or strike price) and may qualify for favorable tax treatment if specific holding requirements are met. While ISOs may not generate regular taxable income when exercised, the spread between the exercise price and the stock's fair market value may trigger the Alternative Minimum Tax. Depending on the number of shares exercised and your overall tax situation, this can result in a substantial tax liability—even if you haven't sold the stock.

Because AMT calculations are highly individualized, proactive planning is essential before making significant equity compensation decisions.

Tax Treatment

- Generally no regular federal income tax is imposed when the ISO is granted.
- Exercising an ISO generally does **not** create regular taxable income.
- However, the difference between the exercise price and the stock's fair market value (the "spread") may be included when calculating the Alternative Minimum Tax (AMT).
- If the required holding periods are met, the entire gain may qualify as long-term capital gain when the shares are eventually

sold.

Planning Considerations

- Estimate your potential AMT exposure before exercising large blocks of options. Evaluate whether spreading exercises across multiple years may produce a better outcome.
- Determine the most tax-efficient number of shares to exercise and consider exercising ISOs gradually over multiple tax years to help manage AMT.
- Exercising early in the calendar year may provide additional flexibility if the stock price declines before year-end. For example, consider exercising and selling in the same calendar year when appropriate to avoid or reduce the ISO AMT adjustment.
- Be aware of disqualifying dispositions which can create ordinary income.
- Coordinate ISO exercises with your overall income, deductions, and cash flow needs.

Nonqualified Stock Options (NSOs)

NSOs provide employees the right to purchase company stock at a fixed exercise price but do not receive the same favorable tax treatment as ISOs.

Tax Treatment

When NSOs are exercised:

- The difference between the exercise price and the fair market value is generally taxed as ordinary compensation income.
- This income is reported on your Form W-2 and is subject to payroll taxes.
- Any appreciation after exercise is generally taxed as a capital gain when the shares are sold.

Planning Considerations

- Consider whether exercising in a lower-income year could reduce your overall tax burden compared with exercising in a high-income year.
- Coordinate exercises with other sources of income to avoid unexpectedly moving into a higher tax bracket.
- If you expect the company's value to increase, holding shares after exercise may allow future gains to qualify for long-term capital gain treatment.

We're Here to Help

Every equity compensation package is different, and the tax consequences can vary significantly depending on your income, the type of award, and when you exercise or sell your shares.

If you've received stock compensation, or expect to in the future, our team can help you evaluate the tax implications, identify planning opportunities, and develop a strategy aligned with your financial goals.

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