McCarthy Asset Management, Inc.
Personalized Wealth Management

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Restricted Stock or Restricted Stock Awards (RSAs)

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"While the tax treatment of Restricted Stock can be complex, understanding the implications and key features provides significant benefits to the employee."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

Features:

- Although they are often used interchangeably, Restricted Stock Awards (RSAs) and Restricted Stock Units (RSUs) are two different stock compensation plans.
- Restricted Stock differs from NSOs and ISOs because it's a grant of stock, as opposed to the right to purchase shares.
- Unvested shares are forfeited on termination of employment.
- On the date of grant, an employee can make a Section 83(b) election, which will make the value of the stock taxable to you as ordinary income based on the value as of the grant date. An 83(b) election makes the cost basis for your restricted stock the value at the grant date, as opposed to the value at vesting date. This allows more of the gain to be taxed as capital gains once the stock is sold. There are two risks associated with this election. One risk is that you lose all unvested stock once you leave the company. Also, a significant decrease in the stock price between the grant and vesting/sale dates would make an 83(b) election less tax efficient than not making one.

Tax Treatment:

- Grant
  - ◊ No tax at grant, unless shares are vested immediately at grant or if the employee makes a Section 83(b) election.
- Vesting
  - ◊ FMV of vested shares is compensation income to the employee. An exception is if the employee makes a Section 83(b) election, which causes the taxable event to occur during the granting stage, as opposed to vesting.
  - ◊ Tax withholding is required from the company for income tax, FICA & Medicare Tax.
- Sale
  - ◊ Excess of sale proceeds over vesting date FMV (or grant date FMV if 83 (b) election made) is taxed as a capital gain.