



JOURNEY > TIME > LEGACY

JTL WEALTH PARTNERS

EMPOWER YOUR FUTURE

Incentive Compensation Guide

	Restricted Stock Units (RSUs)	Non-Qualified Stock Options (NQSOs)	Incentive Stock Options (ISOs)	Section 423 Employee Stock Purchase Plan (ESPP)
Description of features	<ul style="list-style-type: none"> Not to be confused with “restricted securities” Unvested representation of company shares Shares not owned until vested and delivered Available to employees, consultants and directors Never under water Only price on vesting date matters, not grant date Unlikely to have voting rights, but may pay simulated dividends (taxed as ordinary income) Vesting based on time and/or performance 	<ul style="list-style-type: none"> Available to employees, consultants and directors Most common form of stock option Client has discretion on timing of exercise No intrinsic value if market price is below exercise price Finite life, shortens upon employment termination May be created as a result of annual cap on grant value of ISO vesting Vest according to a specific schedule, and only exercisable upon or after vesting 	<ul style="list-style-type: none"> Only granted to direct employees Qualified stock options subject to qualifying and disqualifying disposition rules Vest according to a specific schedule, and only exercisable upon or after vesting No intrinsic value if market price is below exercise price Finite life, usually must be exercised within 90 days of leaving company Maximum of \$100,000 grant value can vest in any calendar year 	<ul style="list-style-type: none"> Offered by many public companies If offered, generally must be made available to all employees Allows for purchase of company stock at discount from fair market value and without commissions Discounts, look-back periods and longer offering periods can be used to calculate purchase price Maximum of \$25,000 per calendar year ESPP shares most likely to be employees’ “long stock” exposure to company because of discount and tax deferral
Tax at vesting	Ordinary income tax + FICA ¹ on market value of shares at vesting date ³	None	None	N/A
Tax at exercise, purchase (ESPP) or NUA election	N/A	Ordinary income tax + FICA ¹ on spread of market price over exercise price ⁴	None unless exercise triggers AMT ² (IRS Form 6251 Worksheet)	N/A
Tax at sale	Capital gains ⁴ above market price at vesting (holding period begins day after vesting)	Capital gains ⁴ above market price at exercise (holding period begins day after exercise)	Capital gains ⁴ + potential ordinary income tax (disqualifying disposition)	Ordinary income tax on initial purchase discount + capital gains ⁴ on appreciation
Considerations	<ul style="list-style-type: none"> Taxed as ordinary income at vesting Client cannot control timing of taxable events at vesting Holding shares “long” after maximum tax is paid Employer may withhold too little (22% federal + state + FICA) 	<ul style="list-style-type: none"> Purchase must be funded unless cashless exercise Spread taxed as ordinary income May be under water or expire worthless Holding shares “long” after maximum tax is paid Employer may withhold too little (22% federal + state + FICA) 	<ul style="list-style-type: none"> Purchase must be funded unless cashless exercise May be under water or expire worthless Exercise could trigger AMT² Shares held 1+ years from exercise and 2+ years from grant get long-term capital gains treatment on sale price minus exercise price (otherwise, disqualifying disposition) 	<ul style="list-style-type: none"> Potential for concentrated position of employer stock Shares held 1+ years from purchase and 2+ years from enrollment get long-term capital gains treatment on any appreciation (otherwise, disqualifying disposition)
Potential strategies	Sell upon vesting and diversify or donate cash proceeds	Cashless exercise: Sell upon exercise and diversify or donate cash proceeds	Exercise and hold for one year to avoid a disqualifying disposition, then consider diversifying or hold for the long term.	Hold for the long term (should be the primary exposure to employer stock)

¹FICA = Payroll taxes (6.2% Social Security and 1.45% Medicare tax), generally 7.65%. ²AMT = alternative minimum tax. ³May also be subject to 0.9% Additional Medicare Tax above certain income thresholds. ⁴May also be subject to additional 3.8% net investment income tax. The information contained herein has been prepared solely for informational purposes and is not intended as tax advice. JTL Wealth Partners does not provide tax advice and does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness or relevance of any information contained herein and takes no responsibility. Investors should consult a tax and/or legal advisor before making any tax-related investment decisions. This information is provided with the involvement of myStockOptions.com, an independent source of online stock plan education and tools on all types of stock compensation. Information as of December 18, 2020, but subject to change without notice. This information refers to the equity of public companies.



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Taxation Examples

Restricted stock units (RSUs)

10,000 RSUs granted at \$100 grant price (grant price is irrelevant after grant date)

Vesting schedule	Vested shares	Market price	Taxable ordinary income	Withholding (<\$1M)	Withholding (>\$1M)
Year 1	1,000	\$130	\$130,000	\$45,045	\$64,545
Year 2	1,500	\$140	\$210,000	\$72,765	\$104,265
Year 3	2,000	\$160	\$320,000	\$110,880	\$158,880
Year 4	2,500	\$120	\$300,000	\$103,950	\$148,950
Year 5	3,000	\$90	\$270,000	\$93,555	\$134,055

Withholding (supp. income <\$1M): 22% federal + 5% state (assumed) + 7.65% FICA = 34.65%¹
 Withholding (supp. income >\$1M): 37% federal + 5% state (assumed) + 7.65% FICA = 49.65%¹

Nonqualified stock options (NQSOs)

20,000 NQSOs granted at \$50 grant price (grant price is highly relevant after grant date)

Exercise schedule	Shares	Market price	Taxable ordinary income	Withholding (<\$1M)	Withholding (>\$1M)
Year 1	0	\$40	\$0	\$0	\$0
Year 2	0	\$45	\$0	\$0	\$0
Year 3	4,500	\$60	\$45,000	\$15,593	\$22,343
Year 4	0	\$48	\$0	\$0	\$0
Year 5	8,500	\$75	\$212,500	\$73,631	\$105,506
Year 6	7,000	\$80	\$210,000	\$72,765	\$104,265

Withholding (supp. income <\$1M): 22% federal + 5% state (assumed) + 7.65% FICA = 34.65%¹
 Withholding (supp. income >\$1M): 37% federal + 5% state (assumed) + 7.65% FICA = 49.65%¹

Incentive stock options (ISOs)

\$10/share grant price, \$15/share market price at exercise (grant price is highly relevant after grant date)

Holding period	Sale price	Tax treatment
Less than 1 year (disqualifying)	\$17/share	\$5 ordinary income + \$2 short-term capital gain
1+ year from exercise and 2+ years from grant (qualifying)	\$17/share	\$7 long-term capital gain (no ordinary income)
Less than 1 year (disqualifying)	\$12/share	\$2 ordinary income

Disqualifying disposition: Hold shares less than 2 years from grant or 1 year from exercise.
 Qualifying disposition: Hold shares more than 2 years from grant and 1 year from exercise.
 No FICA or withholding at exercise or sale. Dispositions include sales, gifts and transfers. May also be subject to additional 3.8% net investment income tax.

Section 423 employee stock purchase plan (ESPP)

15% company discount with look-back; Market price per share: \$50 at enrollment (start of offering), \$55 at purchase (end of offering); Employee gets stock at \$42.50 per share (85% of \$50)

Holding period	Sale price	Tax treatment
Less than 1 year (disqualifying)	\$60/share	\$12.50 ordinary income + \$5 short-term capital gain
1+ year from purchase and 2+ years from enrollment (qualifying)	\$60/share	\$7.50 ordinary income + \$10 long-term capital gain
Less than 1 year (disqualifying)	\$45/share	\$12.50 ordinary income + \$10 short-term capital loss

Disqualifying disposition: Hold shares less than 2 years from enrollment or 1 year from purchase.
 Qualifying disposition: Hold shares more than 2 years from enrollment and 1 year from purchase.
 No FICA or withholding at purchase or sale. Dispositions include sales, gifts and transfers. May also be subject to additional 3.8% net investment income tax.

For more information and investment ideas, please contact us at 855-949-4400

¹May also be subject to 0.9% Additional Medicare Tax above certain income thresholds. The information contained herein has been prepared solely for informational purposes and is not intended as tax advice. JTL Wealth Partners does not provide tax advice and does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness or relevance of any information contained herein and takes no responsibility. Investors should consult a tax and/or legal advisor before making any tax-related investment decisions. This information is provided with the involvement of myStockOptions.com, an independent source of online stock plan education and tools on all types of stock compensation. Information as of December 18, 2020, but subject to change without notice. This information refers to the equity of public companies.