

## Lions, and Tigers, and Bears, Oh My:

### Tackling Bonuses, RSUs, and Taxes in Executive Compensation Packages

Like Lions, Tigers, and Bears in the timeless film The Wizard of Oz, Bonuses, Restricted Stock Units, and Taxes are all powerful elements to consider when evaluating an executive compensation package, and can be used to accelerate progress toward your financial goals. If not handled correctly, they can cause problems and headaches, including unexpected tax consequences.

There's no need to be a "cowardly lion" when it comes to managing your compensation plan. If you just received a bonus or had stock vest, here are a few things to consider to manage it more responsibly, and help you on the yellow brick road to your ideal retirement. Below are **4 tips** to set you up for success.



**TAXES:** Were the right amount of taxes withheld from your Bonus or RSU vest?

- We've seen scenarios in which executives owed over \$100,000 in taxes even after their company withheld taxes from their Bonuses, RSU Vests, and Option Exercise. This is because most companies withhold taxes due on stock vesting at the supplemental withholding rate of 22%.
- Work with your tax preparer or financial advisor to do a tax projection to make sure you won't end up with penalties for underpayment. If you will, determine if you can adjust the amount your company withholds on your stock awards, salary or bonus. If not, ask your tax preparer about quarterly estimate payments.

**SOCIAL SECURITY:** Have you hit the Social Security Wage Base? If so, expect a RAISE!

- If your salary is \$250,000, then Social Security is holding back \$596 each pay (assuming bi-weekly payroll). Once you eclipse \$168,600 in wages for the year, you no longer pay into Social Security.
- If you had stock vest and a bonus hit, you may now be in a position to receive an additional \$1,291 per month. You didn't have it before, so pretend you don't have it now! It can help you pay down debt, catch up on investments, or pay that tax bill we just talked about. Be intentional!

**RISK:** How much risk are you taking with your company's stock?

- If the amount of stock you now have in your company comprises more than 10%-20% of all of your investments, consider selling the RSUs that just vested, or other shares that are trading below their cost basis.
- Remember that as long as there has been very little change in the stock price from the date your stock vested, you likely will not have any additional tax consequences for selling it. Your company is already including the vested amount on your W-2.
- If you're going to sell, consult your financial plan to determine if you need to reinvest the funds to hit your goals, or if you can have some fun with the proceeds! Choose balance in your life!

**BENEFITS:** Are you taking advantage of all the benefits your company offers? The most common benefits we see being improperly utilized are:

- 401(k) plans with Roth and/or After-Tax Options.
- Health Savings Accounts, which offer tax deduction and tax-free growth.
- Not maximizing contributions to an Employee Stock Purchase plan offering a match, discount, or look back.

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Disclosure:

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1See IRS publication 551 "Basis of Assets"

2See IRS publication 575 "Pension and Annuity Income"

3\$660,000x.22=\$145,000. See IRS publication 551 "Basis of Assets" for step up in basis received on inherited stock shares

4See Charitable Contribution Deductions on the IRS's Website

\*See attached Morningstar Illustration