

A high-angle photograph of a person's hands writing in a notebook on a desk. The desk is white and features a silver keyboard, a white mouse, a small green plant in a grey pot, and a tablet. A large purple semi-transparent box is overlaid on the left side of the image, containing white text. The background shows a computer monitor displaying a light blue screen with some green circular patterns.

YEAR-END FINANCIAL & TAX PLANNING FOR EMPLOYEES IN 2017

Bruce Brumberg
myStockOptions.com

Andrew Schwartz
Computershare

December 12, 2017

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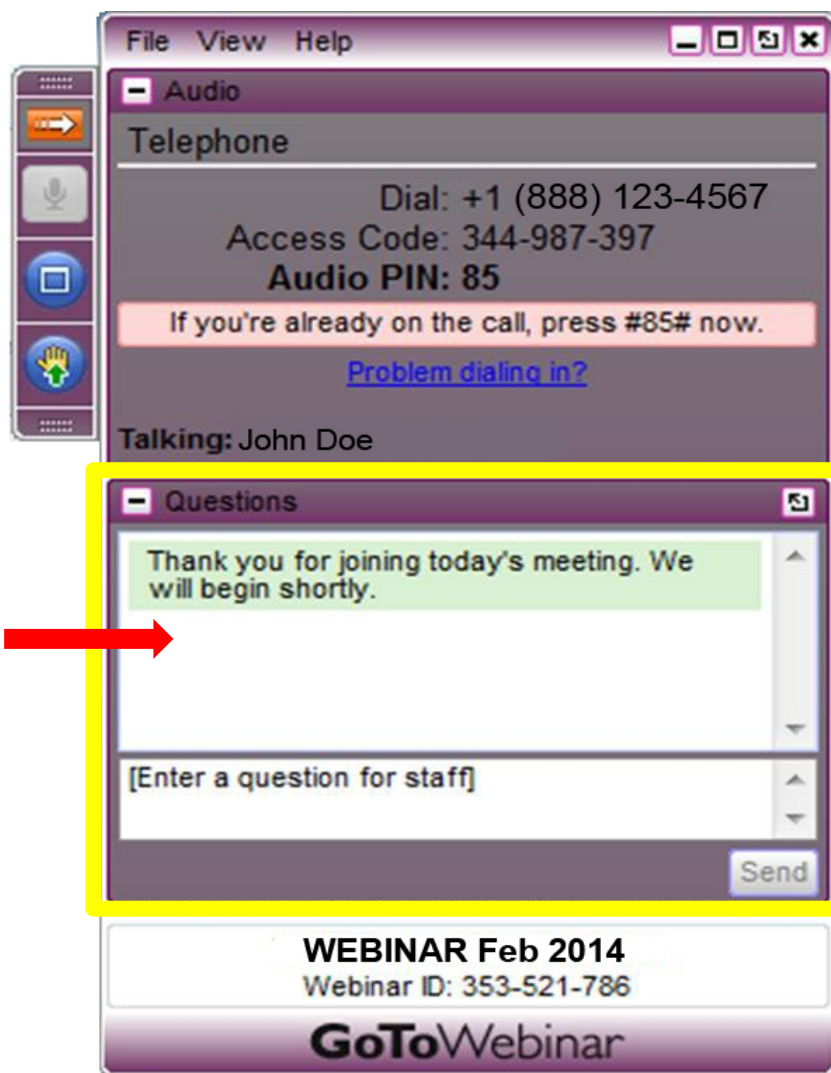
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Today's presenter



Bruce Brumberg, Editor-in-Chief and Co-Founder, myStockOptions.com

- › Award-winning online resource center, has received a patent and has been featured in publications ranging from the San Francisco Chronicle to Money magazine.
- › Human Resource Executive magazine featured myStockOptions.com as one of the 10 Best HR Products.
- › Past President of the Boston NASPP chapter
- › On the NASPP Advisory Board, and contributor to the Stock Plan Advisor.
- › Producer of the "Think Twice" insider trading prevention videos (www.insidertradingvideos.com).
- › Editor of another site on nonqualified deferred compensation at www.myNQDC.com.
- › Bruce graduated from the University of Michigan and University of Virginia School of Law.

Today's presenter



Andrew L. Schwartz, CPA, CEP, Vice President, Computershare

- › More than 15 years of experience with the administration and taxation of equity compensation.
- › Manages executive services team, responsible for all Rule 144/Section 16 equity sales and 10b5-1 plans for the employee plan and investment plan business.
- › Serves as a lead advisor to Computershare's U.S. Plan Managers business, as well as the equity compensation industry, on tax and regulatory issues. He is a frequent speaker at industry events and on webinars.
- › Earned an M.B.A. in Taxation from the Stern School of Business at New York University
- › B.A. from the University of California at Davis.
- › Certified Public Accountant since 1992, earned the CEP (Certified Equity Professional) designation in 2002, and holds FINRA series 7, 24, and 63 securities licenses.
- › Member of the AICPA, NCEO, and NASPP

FEATURED ARTICLE

Top Ideas For Year-End Planning With Stock Compensation (Part 1)

By The myStockOptions.com Editorial Team & Contributors

The end of the year presents opportunities for financial and tax planning. This article provides an engaging introduction to the key concepts of year-end planning for stock options, restricted stock/RSUs, and holdings of company shares. Among other issues, year-end planning should weigh current tax rates against the prospects for tax changes in the year ahead.



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New and Updated Content

FAQ: [NEW! How might tax reform affect stock compensation?](#)

EAO: [What are some year-end strategies for restricted stock, RSUs, and stock options?](#)

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plan participant education**

Roadmap for presentation

- › Tax and legal developments affecting individuals with stock compensation.
- › Financial- and tax-planning issues we commonly see and are asked about.
- › Communication and education for employees and executives.



Enjoy a calm year-end

- › Year-end financial planning and stock plan administration could be **more peaceful in 2017 than in the future.**
- › More activity in years when higher tax rates or market volatility expected.
- › Time to absorb potential tax changes and impact.



Tax Reform Topics



- › Perhaps simplification of individual income tax brackets and rates. House and Senate differences.
- › House/Senate differences in income trigger points for tax brackets, particularly where current top bracket starts.
- › Elimination of the alternative minimum tax (House bill only). Rules for credit carryforwards.
- › No change in capital gains and dividend rates
- › Mandatory FIFO method on partial sales of stock in account (Senate bill only)
- › Special deferral feature for private company stock comp
- › Lower corporate tax rates and elimination of performance-based exception to \$1 million deduction limit.

Polling Question #1

What will happen with tax reform to the flat federal supplemental withholding rate?

- a) Must now use W-4 rate
- b) Still use the tax rate for the third and highest tax brackets
- c) Top rate adopted will apply regardless of income amount
- d) Withholding will be taken from paycheck

Polling Question #1

What will happen with tax reform to the flat federal supplemental withholding rate?

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- b) Always the tax rate for the third and highest tax brackets**
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Tax reform developments impacting stock plan admin

- › Supplemental withholding rate linked to the third tax bracket and the highest tax bracket. (35%/39.6% H, 22%/38.6% S)
- › Backup withholding linked to fourth bracket (39.6% H, 24% S)
- › What happens with only four tax brackets?
- › If AMT eliminated: Will ISOs make comeback, given various rules to follow?
- › FIFO for stock sales and common employee share plan transactions
- › See FAQ on myStockOptions.com: **How might tax reform affect stock compensation?**

What employees are wondering



- › Should tax-rate predictions drive decisions?
- › If expectation of lower taxes: defer income and accelerate deductions.
- › **In general:** tax rates should never be the only reason for exercising options or selling shares, or waiting to do so, at the end of the year.
- › What should drive decisions?

Your investment objectives, expectations for your company's stock price, and your financial needs—as well as tax considerations—should drive decisions.

Checklist for Employees



- › Exercises, vestings, and ESPP purchases in current year
- › Holdings of stock options, restricted stock/RSUs, and company stock
- › Scheduled vestings in the year ahead, including end of cycle for performance share grants and when payout occurs
- › Salary contributions allocated for ESPP purchases
- › Deadlines for option exercises and the expiration dates of option grants
- › Expected new grants in year ahead
- › Trading windows, blackouts, company ownership guidelines, and **any** post-vest holding period requirements
- › Company and brokerage firm statements (online and/or in print for the above items)

Tax and financial-planning topics for participants: end of 2017 and start of 2018

1. Income-shifting and multi-year planning.
2. Withholding not covering taxes owed.
3. Social Security tax in 2017 and 2018.
4. Netting of income, including tax-loss harvesting.
5. Wash sale rule for selling stock at loss.
6. ISOs exercise/hold earlier in year.

2017
2018

Tax and financial-planning topics for participants: end of 2017 and start of 2018

2017
2018

7. Dates for exercise and vesting at very end of year.
8. ESPP sales after stock-price volatility.
9. Identifying shares selling.
10. Gifts and donations of company stock.
11. Tax forms from company and broker in early 2018.
12. Executive/high-net-worth topics: hedging; 409A elections; Rule 10b5-1 plans.

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Articles

Top Ideas For Year-End Planning With Stock Compensation (Part 1)

The myStockOptions.com Editorial Team & Contributors

The end of the year presents a great opportunity for financial and tax planning. This article provides an engaging overview of the various options, restricted stock/RSUs, and holdings of current tax rates against the prospects for

Engaging, informative articles and FAQs on year-end topics. In a special section and on home page.

1. Income shifting and multiyear planning for tax rate changes

- › Income-shifting at year-end: traditional strategy.
- › **Example:** Spread out NQSO exercise over year-end and year-beginning if exercising all now pushes individual into higher tax bracket
- › With **restricted stock/RSUs**, tax at vesting (unless 83(b) or deferral available): you **cannot control when taxed**. Thus income-shifting around restricted stock.
- › Added twist in 2017 with lower top rates expected in 2018
- › Know room remaining in current and projected brackets.
- › Medicare surtax can be a tipping point in decision making

Income thresholds

- Income thresholds for higher tax rates, Obamacare Medicare taxes, and the exemption/itemized deduction phaseouts make it appealing to defer income. At a minimum, know the trigger points (which would **change under new tax legislation**).

Tax rate	Yearly income threshold
Top ordinary income tax rate (39.6%). Top tax rate (20%) on long-term capital gains and qualified dividends (otherwise 15%).	Taxable income of \$418,400 (single) or \$470,700 (joint). May be much higher income point for top bracket in 2018 with tax reform.
Other upper income tax rates: 25%, 28%, 33%, 35%	Taxable income of \$37,950, \$91,900, \$191,650, \$416,700 (single); or \$75,900, \$153,100, \$233,350, \$416,700 (joint)
Medicare surtax on investment income (3.8%)	Modified adjusted gross income of \$200,000 (single) or \$250,000 (joint)
Additional Medicare tax on comp income (0.9%), includes NQSO exercise/RSU vesting	Earned income of \$200,000 (single) or \$250,000 (joint)
Phaseout limit of itemized deductions and personal exemptions	Adjusted gross income of \$384,000 (single) or \$436,300 (joint)

Multi-year planning

Multi-year planning and income projections are now more important than ever.

› **Two planning goals:**

- (1) keeping yearly income under the thresholds for higher tax rates and
- (2) recognizing income at a future time when yearly income and tax rates will be lower.

› **Multi-year planning is especially valuable with equity compensation**, given potential spikes in income from it.

› Employees can:

- a) control the timing of stock sales and option exercises
- b) know when restricted stock/RSUs will vest

Medicare surtax on investment income

- › 3.8% Medicare surtax applies to net investment income, such as capital gains from stock sales. Unsuccessful efforts to repeal it.
- › Stock compensation can trigger the surtax by pushing income over the \$200K/\$250K trigger points.
- › Companies have no withholding or reporting obligation with the 3.8% Medicare tax on investment income. They do on the additional 0.9% on compensation income.



Medicare rate increase & surtax can be triggered by stock compensation

Stock compensation can trigger the Medicare tax 0.9% rate withholding increase and 3.8% surtax:

- › exercise of nonqualified stock options
- › vesting of restricted stock or RSUs
- › grant of restricted stock when 83(b) election
- › purchase through nonqualified ESPPs

Tax-qualified ESPPs and ISOs: No withholding at purchase or exercise and no Medicare tax at all, though the income can increase overall compensation income.

Example with NQSO exercise: Medicare surtax

- › Employee and spouse expect to have modified adjusted gross income (MAGI) of \$175,000 in 2017 and \$250,000 in 2018.
- › Includes about \$40,000 per year in dividends and capital gains. Not subject to the 3.8% Medicare surtax in 2017 because MAGI is below the \$250,000 threshold.
- › If exercise NQSOs in 2018 and recognize ordinary income of \$50,000, this additional amount will push MAGI above the \$250,000 threshold. Would have to pay the 3.8% tax on the \$40,000 in investment income.
- › Extra \$50,000 of income will not trigger these taxes if exercise occurs in 2017, as MAGI for the year will still be under \$250,000.

Which year is better for exercise?

	2017	2018
Modified AGI	\$175,000	\$250,000
Dividends & Capital Gains Included	\$40,000	\$40,000
Income from Exercise NQSOs (which year better?)	\$50,000	\$50,000
Modified AGI + NQSO exercise	\$225,000	\$300,000
Subject to Medicare Surtax	No	Yes

General rules on when exercise in 2017 makes more sense



- › You were already planning to exercise options in next few years. Look at scenarios with tax rate changes.
- › Options close to expiration.
- › Options are deep in the money (big difference between market price and lower exercise price).
- › Plan to change jobs soon: vested options need to be exercised soon after departure.
- › Need to diversify.
- › Big exercise next year would trigger 3.8% Medicare surtax (and other higher taxes).

Example with restricted stock: Medicare surtax

- › Employee and spouse expect to have \$200,000 of adjusted gross income in 2017 and again in 2018.
- › They hold stocks and mutual funds with a gain of about \$40,000. They intend to sell in 2018 to fund daughter's college tuition.
- › However, they have restricted stock that will vest in 2018 and project that the shares will provide \$50,000 of compensation income. Additional income will push them above the \$250,000 threshold.
- › If they sell the stocks and funds in 2017, instead of 2018, they will avoid the 3.8% tax on the \$40,000 of investment income.
- › Could repurchase stock to reset the basis.

Which year better for selling stock?

	2017	2018
Modified AGI	\$200,000	\$200,000
Unrealized Capital Gains	\$40,000	\$40,000
Income for RSU Vesting	\$0	\$50,000
Modified AGI + Capital Gains + RSU Vesting	\$240,000	\$290,000
Subject to Medicare Surtax	No	Yes

Resetting basis/harvesting stock gains with sale

- Exposure to the higher 20% capital gains tax rate and/or the Medicare surtax varies
- **Selling stock with long-term gains only in years when income will not trigger those higher tax rates.**
- Selling not to diversify or meet cash needs.
- Selling appreciated stock to then repurchase same stock.
- No problems with wash sale rule, as selling at a gain.
- Paying taxes at lower rates now (15% and no Medicare surtax) and get new basis

Example:

- Own company stock now worth \$100,000.
- Tax basis \$60,000.
- Sell now (\$6,000 taxes on \$40,000 at 15% rate).
- Buy back at same time (basis \$100,000 for future sale).

Issues to understand when resetting basis and harvesting stock gains

- › Check size of capital-loss carry-forwards or losses from this year.
- › Prior example: may have \$40k of losses to use up, so can wait on sale until future.
- › Need funds to pay taxes; consider the value of that money.
- › Step-up in basis at death similarly eliminates tax on the gain. Want to wait on sale.
- › Disqualifying dispositions for ESPPs and ISOs.
- › Insider-trading rules and blackouts may prevent sale. Unless Rule 10b5-1 plan in place, may be too late now to set it up.

2. Withholding rate for stock compensation

- › Withholding applies to NQSOs, restricted stock/RSUs, SARs, nonqualified ESPP

Flat Withholding Rate	Supplemental Income
25%	Up to \$1 million
39.6 %	Over \$1 million

Employee Confusion: This withholding rate does not necessarily cover the actual amount owed for income recognized at exercise, vesting, or purchase.

Income point where 28% tax bracket begins in 2017:
(\$91,900/\$153,100).

- › **What employees could do:** Put money aside to cover taxes; pay estimated taxes; or change withholding on salary by filing new W-4.
- › FASB accounting rule change on net-settled grant withholding does not override IRS
- › Companies may need to amend stock plan to allow share withholding above minimum statutory rates

Polling Question #2

What will happen to the wage base for the 6.2% Social Security Tax in 2018?

- a) Under tax reform if adopted, the income ceiling goes away
- b) Under tax reform becomes the ceiling limit of 3rd tax bracket
- c) It increases from \$127,200 in 2017 to \$128,400 in 2018
- d) It decreases from \$127,200 in 2017 to \$125,000 in 2018

Polling Question #2

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- b) Under tax reform becomes the ceiling limit of 3rd tax bracket
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- d) It decreases from \$127,200 in 2017 to \$125,000 in 2018

3. Social Security



- › Social Security wage-base maximum: Increase in 2018 to **\$128,400** (Medical capped). No Social Security tax is owed on yearly income above that threshold.

Social Security Wage-Base	Maximum Withholding
\$127,200 (2017)	\$7,886.40
\$128,400 (2018)	\$7,960.80

- › With 6.2% rate of Social Security tax and income cap, the **maximum possible Social Security withholding in 2017 is \$7,347 increasing to \$7,960.80 in 2018.**
- › **Year-end strategy:** Income already exceeds the Social Security wage base for the year, by exercising nonqualified stock options (NQSOs) or stock appreciation rights (SARs) in December **you can avoid the Social Security tax.**
- › Wait until January, wage base for starts at \$0. SS tax will again apply on option exercise spread or vesting value of restricted stock up to the cap. Save the increase in 2018 Social Security tax by exercising stock options in 2017 rather than 2018
- › Beneficiaries can avoid tax by exercising in year after death

4. Netting of capital gain/loss

- ▶ Capital gains and losses net each other out on Schedule D.
- ▶ **Year-end strategy of great focus:** Matching losses with gains is called “tax-loss harvesting.”
- ▶ Up to \$3,000 (joint filers) in losses can be netted against ordinary income, with remainder carrying forward.

Example:

- Sold stock last year at a short-term capital loss of \$9,000.
- This year, sold company shares for short-term capital gain of \$5,000 (reported on Form 8949)
- Two transactions net each other out on Schedule D, leaving \$4,000 of unused losses (assuming no other sales or loss carry-forwards).
- \$3,000 is used to offset ordinary income on 2017 tax return and \$1,000 is carried forward.

Myths about netting of income with stock options, restricted stock, and ESPPs

- › When stock is sold immediately upon option exercise, restricted stock vesting, or ESPP purchase, ordinary income is generated, not capital gain income. **Capital gains are created only after holding stock.**
- › Capital losses cannot be directly netted against ordinary income, even if it comes from a stock sale.
- › Exception for down market: When sell ISO and tax-qualified ESPP stock at price lower than purchased, can be all short-term capital loss and not ordinary income.
- › Underwater stock options: Negative spread at exercise cannot be netted against income from exercising in-the-money options



5. Wash sale rule: selling stock at loss

- › You think company stock is going to bounce back or go higher: **be careful about quickly repurchasing company stock sold at a loss** (could buy another stock in same industry).
- › Sell company shares for a loss and buy more company shares within 30 calendar days before or after the loss transaction:
 - Federal tax code will at least temporarily deny you the ability to claim your loss on the sale for the number of shares replaced.
 - Loss will be carried over to increase the tax basis AND holding period of the replacement shares.

5. Wash sale rule: selling stock at loss

BUY 2/1/17 100 shares @ \$50 = \$ 5,000

SELL 3/31/17 100 shares @ \$45 = \$(4,500)

Results in **\$500** loss

BUY 4/3/17 120 shares @ \$47 = \$ 5,640

Result:

Disallowed loss added to basis of repurchased shares

Adjust holding period of repurchased shares

Create sublots

BUY **2/4/17** 100 shares @ \$52 = \$ 5,200

BUY 4/3/17 20 shares @ \$47 = \$ 940

6. ISO exercise/hold earlier in year: AMT review

- › **With tax reform, wait until 2018 to exercise/hold ISOs.**
- › AMT planning is important for employees with ISOs.
- › Now indexed: the annual AMT income exemption amounts; income points for 26%/28% rates; and income where phase-out starts. permanently for inflation.
- › New refundable AMT credit with tax reform, if AMT eliminated
- › Table from myStockOptions.com:

Filer status in 2017	AMT income exemption amount	Exemption amount phaseout starts	Exemption amount phaseout ends	Point where rate rises from 26% to 28%
<i>Single</i>	\$54,300	\$120,700	\$337,900	\$187,800 <i>(married filing separately: \$93,900)</i>
<i>Joint</i>	\$84,500	\$160,900	\$498,900	\$187,800

6. ISO exercise/hold earlier in year: AMT review

- › It is important to calculate whether you should sell the stock this year to eliminate any alternative minimum tax (AMT) on the spread at exercise.
- › **Not doing this analysis near the end of the year is a big mistake** that many people with ISOs make: generating taxes on gains you may never see.
- › AMT credit takes time to recoup. Tax reform bills have refundable provisions.
- › If you decide to sell the stock, to avoid problems with the wash sale rule as applied to ISOs (it's even worse) **do not repurchase company shares** within 30 days after the sale.
- › **Other year-end AMT/ISO strategies:** (1) exercising NQSOs to bump up ordinary income; (2) exercising ISOs up your AMT cushion; (3) exercising at beginning of next year.

Strategies and twist to year-end ISO analysis

- › Exercise ISOs in the first quarter of a year: if the stock price drops, you can sell the ISO shares later during the same calendar year and avoid paying AMT on paper profits. **Strategy goes away if tax reform eliminates AMT.**
- › Stock price rises, hold the shares. All long-term capital gains at sale.
- › Need to do multi-year income projection. Exercises of ISOs in early 2017 for planned stock sales in 2018. However, could have 23.8% tax on sale in 2018 instead of 15% in 2017 based on total income.
- › In some situations, better to sell in a disqualifying disposition than hold for long-term cap gain. Evaluate the impact of the current top capital gains rate, along with the Medicare surtax on investment income.

7. Exercise and vesting dates near year-end



- ▶ Look at stock plan documents for last business day in year when stock options and SARs can be exercised and procedures.
- ▶ All **completed** exercises with an exercise date in 2017, and all restricted stock with a vesting date in 2017, will be included in 2017 taxes and on W-2 for 2017, and will count towards your Social Security income limit in 2017.
- ▶ Does not matter that company will not send the taxes to the IRS until early 2018.
- ▶ **Stock transfer for gifts and donations need to be completed and received by December 31.** Merely approving the transfer is not enough.

8. Sale of tax-qualified ESPP stock

- › **Satisfy the ESPP holding-period requirements:** still ordinary income for the portion of the gain equal to your company's discount (e.g. 5%, 10%, or 15%) from the offering/start-date price.
- › This is rule regardless of the actual purchase price of the stock and whether or not there was a lookback.
- › Ordinary income is this amount or the actual gain at sale, whichever is less. When sold at a loss, no ordinary income and just capital loss.
- › Disqualifying disposition (sale immediately or within one year): *only the spread at purchase* is ordinary income.
- › Breakdown of ordinary income/capital gains can vary with a tax-qualified ESPP.

8. Sale of tax-qualified ESPP stock when volatile

Offering start price **\$20**, purchase-date price **\$10**. The 15% discount results in **\$8.50** purchase price.

Usually better to have capital gains than ordinary income because you can net gains against losses.

Example with sale when stock price at \$15: Hold long enough: have \$3 in ordinary income and \$3.50 in capital gain. Sell sooner: have \$1.50 in ordinary income and \$5 in capital gain.

Example with sale when stock price at \$5: Hold long enough but stock drops to \$5, will have \$3.50 short-term capital loss and no ordinary income. If sell before one year, will have \$1.50 in ordinary income and \$5 in short-term capital loss.

Taxation with a qualified Section 423 ESPP is confusing!

See section **ESPPs: Taxes Advanced** on myStockOptions.com and in Knowledge Center

8. Sale of tax-qualified ESPP stock when volatile

Offering start \$20, purchase-date \$10, \$8.50 purchase (15% discount)

Stock price at sale	Sale after holding period met	Sale before holding period met
\$15	\$3 in ordinary income and \$3.50 in capital gain	\$1.50 in ordinary income and \$5 in capital gain
\$5	\$3.50 short-term capital loss and no ordinary income	\$1.50 in ordinary income and \$5 in short-term capital loss

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Key Points

1. *Decide about ESPP enrollment in the new year and the amount of your salary to contribute for share purchases.*
2. *If your income will trigger the Medicare surtax next year and you have company stock from an ESPP purchase that you intend to sell soon, you may want to evaluate whether to sell this year rather than next.*
3. *Check whether you have capital-loss carry-forwards from last year or short-term losses from earlier this year that you can net against gains. For ESPP stock sales, on which there is no withholding, be sure you put aside enough money to pay the taxes you will owe with your tax return.*

When you consider year-end planning, don't forget to review ESPP shares you may hold. Below we outline issues and strategies to think about. Of course, each scenario and its strategy will vary according to your own circumstances and the outlook for your company's stock price. The end of the year can also be a time to decide about ESPP enrollment in the new year and the amount of your salary to contribute for share purchases. Plus, you may decide to increase your contributions for the last few months of this year.

Unless you were already intending to take action with your company stock soon, predictions about future tax rates, amid the activity in Congress over tax reform, should not be the only reason for holding or selling at the end of the year. Instead, your investment objectives and personal financial needs, not tax considerations, should drive decision-making.

The end of the year can be a good time to decide about ESPP enrollment in

9. Identifying shares: examine standing orders



- › Default standing order in your account for the shares to use a "first in, first out" (FIFO).
- › Employees may hold various lots of company stock from stock option exercises, vested restricted stock/RSU grants, and/or ESPP purchases.
- › The tax basis and the tax rules for each lot will be different.
- › FIFO sale of stock could trigger larger taxable gains (or even a disqualifying disposition of ISO or ESPP shares).
- › Need to change standing order *before* settlement date: identify shares being sold. Previously, you could get away with just indicating the sold shares on your tax return.
- › **Big Potential change in 2018 in Senate Tax Reform Bill**

Polling Question #3

When do donations of company stock result in a tax deduction for the fair market value?

- a) Stock held at least one month
- b) Stock held more than one year
- c) Stock donated from a tax-qualified plans (e.g. ESPP)
- d) Stock donated has FMV of less than \$100,000

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10. Donations and gifts of company stock

- ▶ When you have held the stock for more than one year, at the time of the donation you get a **tax deduction for the fair market value of the stock** (not for your cost basis). Avoid disqualifying dispositions with ESPP and ISO stock.
- ▶ If you gift stock the long-term capital gains rate at sale for people in the 10% and 15% tax brackets for ordinary income is 0%.
- ▶ The kiddie tax makes it difficult to take advantage of this 0% rate for your children. Planning ideas exist: see article series on college funding in the **Life Events** section of **myStockOptions.com** and in the Knowledge Center
- ▶ Senior executives making gifts and donations of stock must review the reporting requirements and rules of Section 16 and Rule 144.
- ▶ **Potential increase in standard deduction can makes donations this year worth more.**

Better to donate appreciated shares held long-term than cash

Example: Own 10,000 shares trading at \$10 per share received at \$1 per share. Should you donate the \$100,000 of company stock or sell the stock first and then donate the cash proceeds?

	Donation of stock	Donation of cash
Federal and state income tax rate	40%	40%
Tax rate and amount for selling stock	N/A	15% / \$13,500 (0.15 x \$90,000)
Net amount to donate	\$100,000	\$86,500
Tax savings (40% rate)	\$40,000	\$34,600

11. Tax forms from company and broker in early 2017



- › Form W-2 and 1099-MISC; Form 3921 for ISOs; Form 3922 for ESPPs.
- › Form 1099-B for stock sales from broker.
- › For grants made in 2014 and later years, **brokers are not permitted** to report compensation/W-2 income part of basis.
- › Need to know: (1) how broker is handling basis reporting for pre-2014 grants; (2) whether it is providing any supplemental information on the basis to employees.
- › No changes in 1099-B and tax return forms 8949 and Schedule D.
- › Company and broker: additional materials on how to use the information on the forms.

12. High net worth/executive topics

- ▶ Rule 10b5-1 plans when executives know they plan to sell at year-end.
- ▶ Hedging of company stock: What is company policy and whether any prohibition?
- ▶ Deadline for 409A/nonqualified deferred compensation (NQDC) elections. Applies to RSUs with deferral election and certain performance-based stock plans, not just salary and cash bonus
- ▶ Elections needed by year-end for income that would be received in 2018. Website on nonqualified deferred compensation at www.myNQDC.com.


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Financial Planning: Year-End Planning **UPDATED FOR 2017**

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Q: What are some year-end strategies for restricted stock, RSUs, and stock options?

A: **Alert:** Congress is intensively considering tax reform (see the [related FAQ](#)). Changes in tax rates and brackets could immediately affect stock compensation and the related planning for year-end 2017 and the start of 2018, depending on what is adopted and when (though the legislation is unlikely to be retroactive to the start of 2017).

Decisions in year-end financial and tax planning depend on:

- your situation, including short-term cash needs that may prompt you to sell stock and/or exercise options
- whether your decisions should be entirely tax-driven
- what you did earlier in the year
- your outlook for both your company's stock price and your job
- multi-year projections for your income
- your ability to spread the recognition of income from certain sources over 2017 and 2018
- options that may expire soon
- trading windows and blackouts and/or ownership guidelines imposed by your company

With year-end planning, you are looking for ways to shift income between years so that you are paying less in tax, while also considering the outlook for your company's stock. If you are considering option exercises or stock sales at year-end, you should be aware of the thresholds for higher tax rates and may want to consider keeping your income below them, if possible.

FAQ on year-end planning. For a PDF to distribute, email: editors@myStockOptions.com

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- ▶ [Basics of SEC Law: Course of Study and Exam](#)
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- ▶ **NEW!** [Incentive Stock Options: Course of Study and Exam \(not available\)](#)

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Ginny Bicking, CEP

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