



*Where are they?
What happened to my RSU's? I paid taxes on them.
They've shrunk so much I can barely see them!
How did this happen?*



With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

Restricted Stock Units

Restricted stock units (RSUs) are a popular form of equity compensation. They are used by corporations to reward employees and give them an incentive to remain part of the company. RSU's can provide:

- A significant financial benefit if the company performs well and the stock price goes up.
- A significant percentage of income each year for employees.

It's important to understand how RSUs work, how they are taxed, and how to manage the risk of the stock you may accumulate.

For those who prefer TL;DR (too long; didn't read), we provide a bullet point summary at the end of the blog.

How do RSUs work?

- An RSU 'grants' employees a specific number of shares of the company stock.
- RSUs have two key dates:
 - **The grant date** - when the company promises restricted shares to you, but you don't own them yet.
 - **The vesting date** - when the shares are no longer restricted and you own them free and clear.

- RSUs typically 'vest' after a certain number of years have passed while you work for the company. Sometimes a particular company milestone may need to be reached, such as a product or service launch or a sales or earnings target. For private companies, the milestone might be a merger, an acquisition, or an initial public offering.
- Once the RSUs 'vest', you own the shares and can choose to hold or sell them. Companies generally provide certain dates, called 'trading windows', which specify when you can sell your vested shares.

How are RSUs Taxed?

Because RSUs are considered compensation, you typically owe *ordinary income tax* on the value of your stock the day it vests.

- You will owe the ordinary income tax whether you hold or sell your shares.
- Most companies give you the option of selling some of your shares to cover your tax obligation on the day they vest.
- If you choose to keep your RSUs after they vest, any gain or loss on their value *from the vesting date forward* will be treated as a short or long-term capital gain. This treatment is identical to any other stock you could purchase.
- People sometimes think there are tax reasons to hold their vested RSUs - generally because they confuse RSUs with stock bought in employee stock purchase plans (ESPP). There is no tax benefit of holding newly vested RSUs versus selling them and buying something else.

Ways to Think About your RSUs

- If the stock price goes up between the grant date and the vest date, you are generally better off getting stock than getting a cash bonus.
- If the stock price goes down between the grant date and the vest date, a cash bonus would have been worth more.
- If you choose to keep your RSUs once they vest, it's conceptually the same as getting a cash bonus and deciding to buy your company stock with the money.

Example RSU Vesting Timeline

Assumptions:

- 1000 shares of 2XW stock granted.
- 4-year semiannual vesting schedule.
- 25% of shares vested after 1 year, 12.5% every 6 months thereafter.

	Grant Date	+1 Year	+18 Mos	+2 Years	+30 Mos	+3 Years	+42 Mos	4 th Year
Grant Shares (Unsellable)	1000	750	625	500	375	250	125	0
Shares vested per period	0	250	125	125	125	125	125	125
Cumulative Vested Shares	0	250	375	500	625	750	875	1000

In the chart above, you can see how the number of vested shares rises over time based on the semiannual vesting schedule. Most custodians will show a separate value for your vested shares (which you own and can sell) and those that are granted but not yet vested (which you don't own yet). All statement values from custodians are based on the current day's stock price.

Your Statement

Etrade is a popular custodian for RSUs, so for purposes of this example, we will discuss Etrade statements:

- When you log on, you will see a "Complete View".
- If you have several Etrade accounts, click on "Stock plan".
- Click on 'Holdings'.
- Click on 'View by Status', to see **Sellable** and **Unvested stock**.
 - The value of your **Sellable** (aka vested) stock can be recognized immediately if you sell the stock - subject to being in the 'trading window' for your company.
 - The value of your **Unvested** stock represents shares that are granted but you don't yet own (and therefore can't sell!).
- The value of your **Unvested stock** is theoretical.
 - The value of unvested RSUs on your statement is based on today's price, but the value you receive when they vest in the future may be higher or lower depending on the trajectory of the stock price.
 - Typically, you need to remain employed at the company to get your unvested RSUs. A frequent exception is made for employees who are retiring from the company and not going to a competitor.

How Do you Decide Whether to Sell Your Shares?

This decision depends on your own financial situation, and there are a few things to consider:

- The risk of having your job and your savings tied up in one company.
- The value of investment diversification.
- Your risk tolerance and your role in the company.
- The underlying strength of your company and its industry.
- Your age and other financial obligations.

If you get new RSUs every year you are employed, your exposure to your company stock can build very quickly. Most people continuing to work for the same company create a plan to sell RSUs as they vest in order to diversify their equity investments. Even if you regularly sell your vested RSUs, your unvested RSUs and new awards will continue to provide equity exposure to your company.

Unexpected Consequences of What You Decide to Do with Your Vested RSUs

A '**wash sale**' can occur in a taxable account if you sell stock at a loss and within 30 days before or after the sale, you buy shares in the same company. Newly awarded ESPP shares or newly vested RSUs are considered a purchase for the purposes of wash sale rules. The tax loss from the sale can only be taken when those 'new' purchases are sold as well. Check with your accountant for details regarding your specific circumstances.

Your vested RSUs go down in value – If you plan to sell your RSUs in order to diversify, pay attention to the vesting dates. If you don't sell on the vesting date, you could be exposed to a sudden drop in your company's stock, causing an unintended loss.

Opportunity cost – By holding your vested RSUs rather than selling them, you may miss out on other better investment opportunities.

Need Help?

Send an email to Lisa@2xwealth.ingalls.net or Lori@2xwealth.ingalls.net

TL;DR

- **Restricted stock units (RSUs)** are a popular form of equity compensation and, as a result, are taxed as ordinary income when they vest. They are used by corporations to reward employees and give them an incentive to remain part of the company.
- **The RSU vesting date** occurs when the shares are no longer restricted and are owned by you. Companies provide a vesting schedule and trading windows to help you manage your RSUs.
- If you choose to keep your RSUs once they vest, it's conceptually the same as getting a cash bonus and deciding to buy your company stock with the money.
- If you get new RSUs every year you are employed, your exposure to your company stock can build very quickly. You run the risk of having your job and your savings tied up in one company.

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