Five Year-End Tax Strategies for Restricted Stock Units (RSUs)

Before we can talk about efficient tax strategies for Restricted Stock Units (RSUs), we need to understand exactly how they are taxed. First, they are taxed as ordinary income when they vest and withholding taxes are due at that time. After vesting, if stock is held for more than a year and then sold, the gain is taxed at the long-term capital gain rate of 0%, 15% or 20% depending on your taxable income and filing status. However, if the stock is held less than one year after vesting and then sold, it is taxed at the short-term capital tax rate which will be the same as your ordinary income tax rate.

With that understanding we can now move on to the year-end tax strategies for RSUs which are:

1. Deferring income around RSU Income
2. Selling RSU vested shares this year to avoid the Medicare Surtax next year
3. Pay next year's state income tax and property tax this year to reduce this year's income tax
4. Donating RSU vested shares vs donating the cash from the sale of appreciated stock
5. Gifting RSU vested shares to family members

Deferring Income Around RSU Income

RSUs are taxed when the units vest which gives you no control of when this income is taken. However, you may have other forms of income, such as stock options, that are taxed when you chose to exercise them. By controlling the timing of your exercise around RSU income in 2019, you may avoid moving into a higher tax bracket, Medicare surtax or the highest (20%) capital gains tax rate.

Selling RSU Vested Shares This Year to Avoid the Medicare Surtax Next Year

In addition to the normal Medicare tax rate on income, there is a 3.8% Medicare surtax that applies to investment income from dividends and gains from stock sales on single taxpayers with earned income over $200,000 and $250,000 for married couples filing jointly. Note that this surtax does not apply to income from RSU vesting. If your income is expected to exceed these amounts next year and you have vested RSUs, then you may want to sell them this year rather than next year to avoid this surtax.

Pay Next Year's State Income Tax and Property Tax This Year to Reduce This Year's Income Tax

State income tax and property tax deductions are not allowed if you are in an Alternative Minimum Tax (AMT) situation. Vesting of large blocks of RSUs may create enough income tax to exceed your AMT amount and therefore allow you to benefit from these deductions this year. You can also pay next year's income tax and property taxes this year instead of waiting until April 15th and double up on this deduction and exceed the standard deduction by itemizing. This is especially attractive if you may be in AMT next year and the deductions would not be allowed.

Donating RSU Vested Shares vs Donating the Cash from the Sale of Appreciated Stock

Year end tax planning may include making gifts and donations of appreciated company stock to charities. When shares of vested RSUs are held for one year and then donated, the fair market value of the stock when you gift it may be used as a tax deduction. Be careful to wait one year because if you don't, the deduction is limited to the stock's value at vesting, which may be considerably less. If the stock is first sold and the cash donated, the gain is subject to capital gains tax and the donation would become an after-tax amount. Which deduction would you want, before tax or after tax?

Gifting RSU Vested Shares to Family Members

On the flip side, you may want to consider gifting of company stock that has little or no appreciation but has the potential to increase in value. In 2019, the gift tax exemption is $15,000 per recipient or $30,000 if a married couple each gifts the maximum. If the stock is expected to appreciate, then gifting to a family member that is in the 10% or 20% tax bracket may make sense. Their long-term capital gain rate is 0% and they could sell the appreciated stock at some point in the future and pay no tax on the gain. However, be careful of kiddie taxes and full time students when gifting to children.