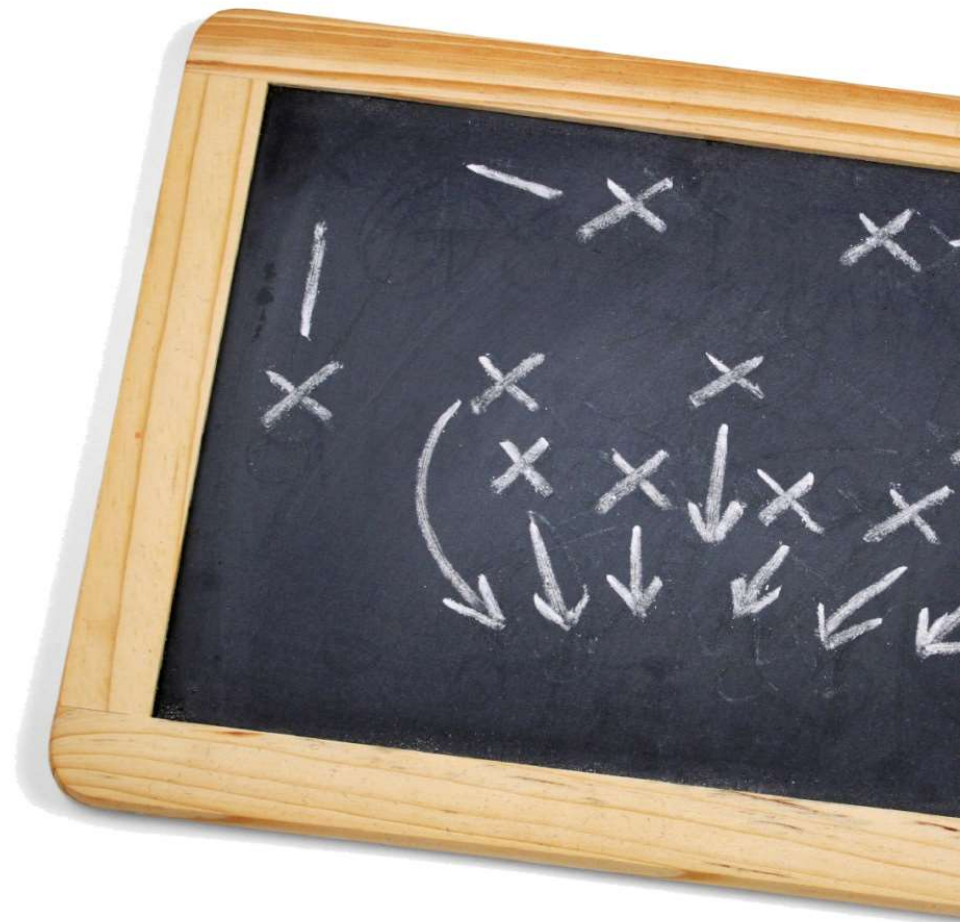


# The Stock Option Explainer:

## Maximize Value!

Grodin.CPA



# Stock Options – The Decisions...



What are ISOs, NSOs, RSUs,

What is AMT?

How do ISOs, NSOs or RSUs work?

How can I maximize the value of my options? What happens if the price drops?

There must be a way to figure this out!

## **Stock Options – When are they income?:**

Incentive Stock Options – ISOs are NOT counted in ordinary income when you exercise them, but they ARE counted in AMT income. More detail on AMT later.

Nonqualified Stock Options – NSOs are counted as ordinary income the day you choose to exercise them.

Restricted Stock Units – RSUs are counted as income the day they vest.

# The Alternative Minimum Tax



AMT is calculated on all tax returns, but AMT is only due when the calculation results in more tax than your regular tax calculation. This is usually the result of exercising ISOs.



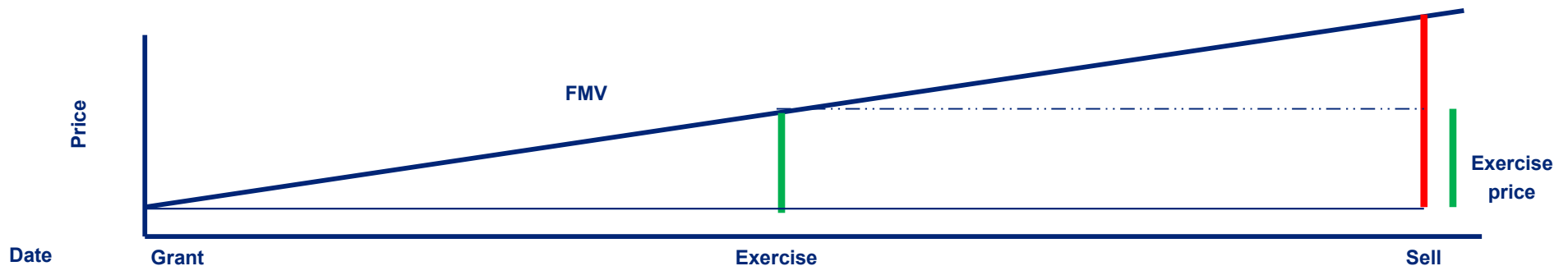
Rather than the increasing tax rates of our ordinary tax system, AMT has a large exemption, then a flat 28%. Exercising ISOs increases AMT without increasing ordinary tax.



If you ever have to pay AMT, you will get a credit for it down the road – think of it as a down payment on the long-term capital gains on your ISOs.



# Incentive Stock Options – How they work (when you are ready to dig into the details)



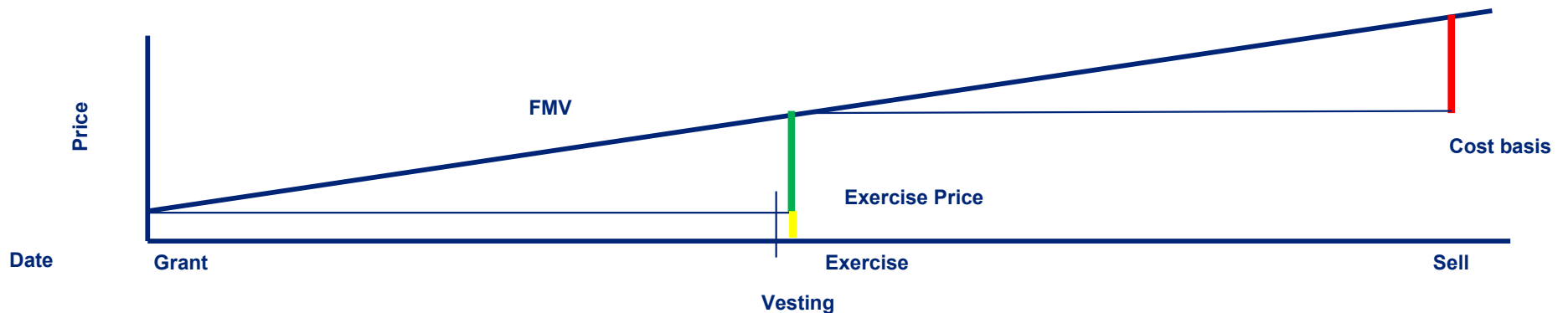
**Grant: no tax effect**

- Exercise: Potential Alternative Minimum Tax on price difference between FMV at exercise and exercise price. This AMT will be a credit in the (possibly distant) future.**
- Sell: Capital gain on difference between sale price and exercise price.**
- Offset indirectly by credit for AMT paid (there's more to this...)**

**Long term rates IF exercise 1 year after grant and sell 2 years after grant**

**Maximize value: Compare your tax savings to your personal risk levels. Some people should hold, some should sell right away**

# Nonqualified Stock Options – How they work



**Grant: no tax effect**

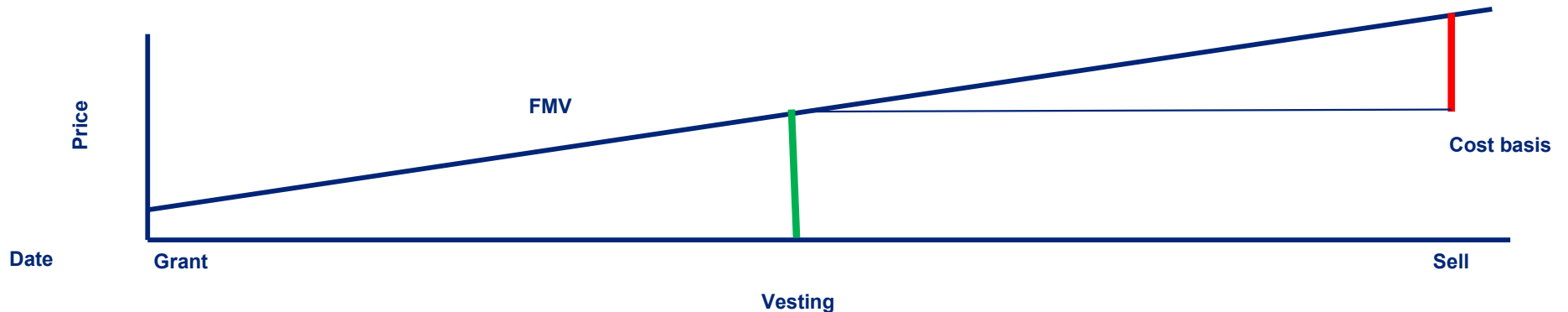
- Exercise: Purchase the stock at your exercise price. Potential to use your own shares to purchase.**
- Recognize ordinary income on the bargain difference between FMV and Exercise price. (It should show up in Your W2.)**
- Sell: Capital gain (or loss) on difference between FMV and Purchase price**  
**Long term rates on red bar only IF held for more than one year after exercise.**

**Maximize your value:**

**Exercise early to lock in low cost basis.**

**Want to diversify? Sell as soon as you exercise!**

# Restricted Stock Units – How they work



**Grant: no tax effect**



**Vesting: Ordinary income in your W2**

**Tax withheld typically at 22% federal 10% (California) state which may or may not be right**



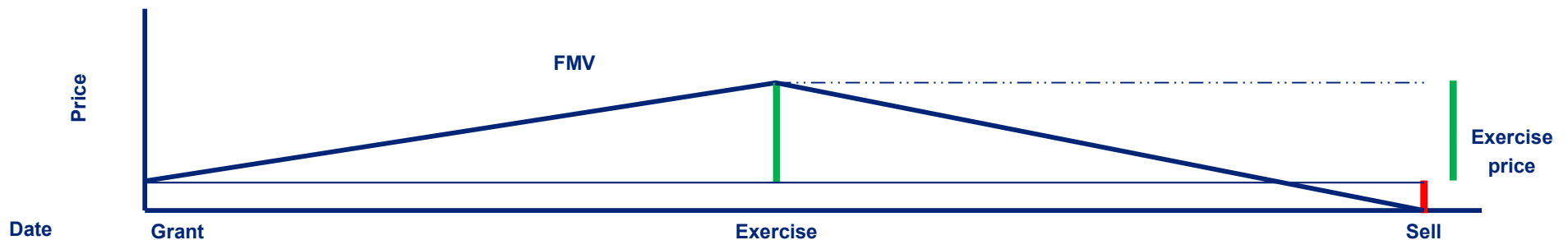
**Sell: Capital gain on difference between FMV and Purchase price**

**Maximize Value**

**Like NSOs – no need to hold past vesting date.**

**Do you owe every year? Check your RSUs!**

# What happens to ISOs if the price goes down



**Grant: no tax effect**

**Exercise: Potential AMT on price difference between FMV at exercise and grant price. This AMT will be a credit in the (possibly distant) future. No special AMT consequence if sold in year of exercise**

**Sell: Regular tax purposes: Capital loss on difference between sale price and exercise price.**

**Maximize Value:**

**Due to AMT mechanics, AMT credit will be MUCH slower. Consider selling in year of exercise, avoiding AMT.**



# When to Exercise and hold vs Same day sale ISO

## Exercise and Hold If...

Your regular income tax rates are substantially higher than long term capital gain rates

Exercise price is relatively low compared to FMV at date of exercise

You are prepared for the AMT

## Same day sale If...

Relatively low regular income tax rates.

Need cash this year

Reduce risk, diversify, opportunity cost

## We can help you out!

Want guidance? We can help you navigate your options so you can unlock their value at a risk level you are comfortable with

### Our process:

- Project your income for the year
- Determine how much AMT you may owe
- Develop a plan to exercise your options based on your tax and *risk* profile
- Partner with you to react to stock price changes, adjust the plan accordingly.

