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TAX PLANNING · GUIDE

RSU Tax Planning Checklist

A plain-English guide to equity compensation for Amazon, Microsoft, and other tech employees: vesting, withholding gaps, ESPP timing, the mega backdoor Roth, and concentrated-stock risk.

An educational guide from Alex Carter, CFP®

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01 RSU Vesting, Taxes, and the Withholding Gap

Restricted Stock Units (RSUs) are a promise from your employer to give you shares once they vest. Vesting simply means the shares become yours according to a schedule (for example, a portion each year). On the day shares vest, the value of those shares is generally treated as ordinary income, the same kind of income as your salary. That amount is reported on your W-2.

Here's the part that surprises many people: employers often withhold taxes on vesting RSUs at a flat federal supplemental rate (commonly 22% on amounts up to a threshold). If your actual marginal tax bracket is higher than what was withheld, that difference can leave you owing more at tax time than you expected. It is sometimes called the 'withholding gap.' This is a common reason high earners receive an unexpected balance due.

- Vesting value = shares vested × share price on the vest date; this amount is generally ordinary income on your W-2.
- Default withholding may not match your true marginal bracket, especially for higher earners.
- Your cost basis in the shares is generally the value already taxed at vest, which matters so you aren't taxed twice when you later sell.
- If you hold shares after vesting, any later gain or loss is a separate capital event measured from that cost basis.
- Consider reviewing whether estimated tax payments or adjusted withholding may help you avoid a surprise. A CPA can model this for your situation.

> **GOOD TO KNOW**
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> Tip: Mark each vest date on your calendar and jot down the share price that day. Knowing your cost basis up front can help prevent accidentally paying tax twice on the same shares when you eventually sell.

02 ESPP Basics and Timing Considerations

An Employee Stock Purchase Plan (ESPP) lets you buy company stock through payroll deductions, often at a discount and sometimes with a 'lookback' that prices your purchase off the lower of two dates. Plans vary widely, so the first step is always reading your specific plan documents to understand the discount, the offering period, and any holding requirements.

Taxes on ESPP shares depend on the type of plan and how long you hold the shares after purchase. In a qualified plan, selling sooner versus later can change how much of your gain is treated as ordinary income versus capital gain: the rules distinguish between 'qualifying' and 'disqualifying' dispositions based on specific holding periods. Because the outcome depends on dates, prices, and your plan's terms, it's worth confirming the details before you sell.

- Read your plan: discount percentage, lookback feature, offering and purchase periods, and any required holding time.
- Holding-period timing can affect how gains are characterized for tax purposes, and the result is plan- and date-specific.
- Selling shortly after purchase locks in the discount value but may produce more ordinary income; holding longer has its own trade-offs and market risk.
- Coordinate ESPP purchases with the rest of your cash-flow needs so you aren't over-concentrated or short on liquidity.

03 The Mega Backdoor Roth: What It Is and Who It Can Apply To

The 'mega backdoor Roth' is a nickname for a strategy that some 401(k) plans allow: making after-tax contributions (beyond the standard pre-tax/Roth employee limit, up to the overall plan maximum) and then converting those after-tax dollars into a Roth account. The appeal for some savers is that Roth dollars can grow tax-free and generally come out tax-free in retirement, subject to the rules.

The key word is plan-dependent. This approach only works if your employer's plan specifically permits both after-tax contributions and either in-plan Roth conversions or in-service withdrawals. Many large tech employers' plans include these features, but not all do, and the details matter. Whether it makes sense for you also depends on your cash flow, your other retirement savings, and your overall tax picture.

- Two features generally need to exist in your plan: after-tax (non-Roth) contributions, plus in-plan Roth conversion or in-service distribution.
- Annual contribution and overall plan limits apply and can change year to year, so confirm current figures with your plan and a tax professional.
- Converting after-tax dollars promptly may help limit taxable growth on the pre-conversion amount; timing rules can be nuanced.
- This is one approach among several for Roth savings; whether it fits depends on your individual circumstances.

> **GOOD TO KNOW**
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> Tip: Before assuming this is available to you, ask your plan administrator two direct questions: 'Does the plan allow after-tax contributions beyond the standard limit?' and 'Does it allow in-plan Roth conversions or in-service withdrawals?' The answers determine whether the strategy is even on the table.

04 Managing Concentrated-Stock Risk Through Diversification

When a large portion of your net worth is tied to a single company's stock, and your paycheck comes from that same company, you carry what's often called concentration risk. The same employer that provides your income, your RSUs, and possibly your ESPP shares can end up representing an outsized share of your financial life. That isn't inherently good or bad, but it's worth understanding so it's a deliberate choice rather than an accident of how you were paid.

Diversification means spreading investments across different holdings. It is a general approach many investors use that may help reduce the impact of any single position. Selling concentrated shares can have tax consequences, and emotional factors (loyalty, optimism about the company, or simply inertia) often make this harder than the math alone suggests. There's no one-size-fits-all answer; the right balance depends on your goals, time horizon, tax situation, and how much risk you're comfortable with.

- Take stock of total exposure: salary, vested shares, unvested RSUs, and ESPP holdings often all point to the same company.
- Some investors consider gradually trimming a concentrated position over time rather than all at once, weighing taxes and market risk.
- Selling appreciated shares can trigger capital gains; holding period and your bracket influence the tax treatment.
- Charitable giving of appreciated shares is one tool some people explore for tax-aware diversification, though its suitability depends on your situation.
- Setting rules in advance (for example, a written plan for what to do at each vest) can help reduce emotionally driven decisions.

05 Putting It Together: A Working Checklist

Equity compensation tends to reward a clear, repeatable process more than any single clever move. The checklist below is a starting framework to organize your thinking, not a recommendation. The right answers depend on your plan documents, your tax picture, and your goals, which is why it helps to review the specifics with qualified professionals.

- Confirm each RSU vest date and the share price/value that becomes ordinary income.
- Check whether your withholding is likely to cover your true marginal bracket, and discuss estimated payments with a CPA if there may be a gap.
- Record your cost basis for vested and ESPP shares so gains and losses are reported correctly when you sell.
- Read your ESPP plan terms and understand how holding-period timing can affect tax treatment.
- Ask your plan administrator whether a mega backdoor Roth is even available under your plan.
- Assess your total exposure to your employer's stock and decide, intentionally, how concentrated you want to be.
- Revisit the plan at least annually and after any major change, because limits, plan features, and your own circumstances can shift.

Key takeaways

- RSUs are generally taxed as ordinary income at vesting, and default withholding may fall short of your actual bracket, leaving a potential 'withholding gap' to plan for.
- ESPP rules vary by plan, and how long you hold shares after purchase can change how gains are taxed; read your plan documents before selling.
- The mega backdoor Roth is plan-dependent: it only works if your 401(k) allows after-tax contributions plus Roth conversions or in-service withdrawals.
- Concentrated exposure to a single employer's stock is common with equity comp; diversification is one general approach many investors use to manage that risk, with tax and personal factors to weigh.
- Tracking vest dates, cost basis, and plan features in a simple checklist may help you avoid surprises and make intentional decisions.
- These topics depend heavily on your individual circumstances, so review the specifics with a qualified financial advisor, CPA, and where relevant an attorney.

YOUR SITUATION IS UNIQUE

Questions about how this applies to you?

This guide is a starting point. Schedule a discovery call and we will map it to your own goals, timeline, and circumstances.

Visit carterfinancialplanning.com or call (425) 451-2950.

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