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LEARN | Incentive Stock Options: Incentive Compensation

Your clients and prospects may receive incentive stock options (ISOs) as a company benefit, and look to you for recommendations and point of view.

Did You Know?

ISOs are subject to a vesting schedule established by their employer. Typical vesting schedules are between 3-5 years.

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Key Takeaway

Your client can exercise their ISOs in 3 ways: Exercise and hold (cash exercise), exercise and sell (same day sale or cashless exercise), or sell to cover. Understand the tax treatment specific to ISOs to benefit your client in the long run.

Questions to Ask Clients and Prospects

Conversation starters to help gauge their level of understanding, meet them where they are and present the appropriate options.

Question

Do you receive ISOs as part of your compensation?

Question

Do you know the vesting schedule for your ISOs?

Question

Do you know when ISOs are taxed?

Question

Do you know the main considerations with ISO taxation?

Next Step

Start by asking clients and prospects if their options are vested, and if not, run through some potential “what-if” scenarios with them.

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Disclosure



Tax-loss harvest transactions aren't beneficial in a retirement account because the losses generated in a tax-deferred account cannot be deducted.

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