LEARN | When to Consider Diversifying Concentrated Shares

3 minutes

Stock that is awarded as part of an incentive compensation plan presents unique challenges for investors. Help your clients understand the optimal time to consider diversifying their concentrated shares.

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Key Takeaway

Not all shares are created equally. Learn about the tax considerations of different types of stock awards and the best time to consider diversifying.

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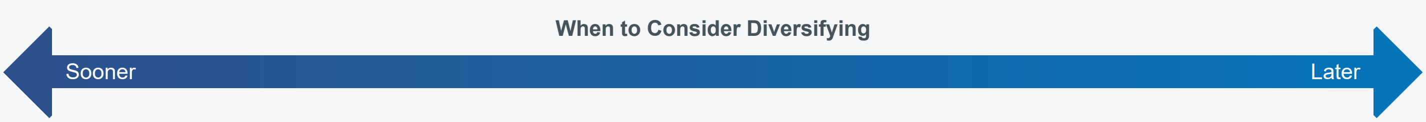

Stock Type Vested Restricted Stock Units (RSUs)	**Stock Type** Vested In-the-Money Non-Qualified Stock Options (NQSOs)	**Stock Type** Vested In-the-Money Incentive Stock Options (ISOs)
Tax Considerations Think of an RSU as cash compensation paid in the form of equity. Subject to insider trading rules, vested stock can be sold immediately upon vesting in order to diversify. For positions not sold upon vesting capital gains consequences should be factored in to the decision to sell. Vested shares with built-in gains can also be used to fund charitable giving.	**Tax Considerations** Unlike ISOs, there is no tax benefit to holding shares acquired through NQSOs. NQSOs let the holder control the timing of the taxable event, but ordinary income tax on the full bargain element is triggered upon exercise which has the effect of shrinking the discount received on the stock. A cashless exercise of NQSOs and a subsequent contribution can be used to fund charitable giving.	**Tax Considerations** Shares acquired through ISOs are attractive in taxable accounts because in a qualifying disposition, the entire difference between market value and discounted purchase price is taxed as long-term capital gain. However, beware of the possible Alternative Minimum Tax (AMT) consequences of holding these past the year of exercise.

Next Step

Identify clients who work at publicly traded companies, and set up time to speak with them about their holdings.

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