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LEARN | Nonqualified Stock Options: Incentive Compensation

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

Did You Know?

NQSOs are only exercisable upon or after vesting. It's important to remind clients and prospects that they cannot take action before shares vest.

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Key Takeaway

There are 3 ways to exercise NQSOs: Exercise and hold (cash exercise), exercise and sell (same day sale or cashless exercise), or sell to cover. Understand the tax treatment specific to NQSOs 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 NQSOs as part of your compensation?

Question

Do you know the vesting schedule for your NQSOs?

Question

Do you know when NQSOs are taxed?

Question

Do you know the main considerations with NQSO taxation?

Next Step

Start by asking your client if they have thought about how they want to exercise their NQSOs.

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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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Two International Place
Boston, MA 02110

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