Eaton Vance Tax Education Center

WATCH | Reducing Taxes on Incentive Compensation

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TAX FORWARD 365®

Reducing Taxes on Incentive Compensation

Clients who receive incentive compensation, such as stock options from their employer, often face additional tax challenges. It's not uncommon for employees to accumulate concentrated positions of company stock over time. When too much of a client's portfolio is invested in a single stock, they run the risk of jeopardizing their financial wellbeing if the stock price falls.

One of the biggest impediments to diversifying a highly appreciated concentrated stock is capital gains taxes, including state and local taxes, which can equal 15 to 35% of the value of the stock. Position yourself as a resource to help clients diversify their concentrated holdings in a tax-efficient manner. One option is to consider securities that offer a tax advantage, such as those that pay qualified dividends. If they have stock options, discuss when and how to exercise them. Depending on the type of stock options they have, there are various tax implications.

Finally, most clients may benefit from holding securities for at least one year to avoid higher short-term capital gains taxes. As a financial advisor, you can partner with your client and their tax professional to help develop a plan that meets their needs.

Take a few minutes to explore the Eaton Vance Tax Education Center at EatonVance.com/TaxEdCenter for useful resources to help you meet a variety of tax-forward investing needs.

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