

# Incentive Compensation Guide

January 2025

	Restricted Stock Units (RSUs)	Nonqualified Stock Options (NQSOs)	Incentive Stock Options (ISOs)	Section 423 Employee Stock Purchase Plan (ESPP)
<b>Description of Features</b>	<ul style="list-style-type: none"> <li>Not to be confused with “restricted stock”</li> <li>Unvested representation of company shares</li> <li>Shares not owned until vested and delivered</li> <li>Available to employees, consultants and directors</li> <li>Never under water</li> <li>Only price on vesting date matters, not grant date</li> <li>Unlikely to have voting rights, but may pay simulated dividends (taxed as ordinary income)</li> <li>Vesting based on time and/or performance</li> </ul>	<ul style="list-style-type: none"> <li>Available to employees, consultants and directors</li> <li>Most common form of stock option</li> <li>Client has discretion on timing of exercise</li> <li>No intrinsic value if market price is below exercise price</li> <li>Finite life, shortens upon employment termination</li> <li>May be created as a result of annual cap on grant value of ISO vesting</li> <li>Vest according to a specific schedule, and only exercisable upon or after vesting</li> </ul>	<ul style="list-style-type: none"> <li>Only granted to direct employees</li> <li>Qualified stock options subject to qualifying and disqualifying disposition rules</li> <li>Client has discretion over timing of exercise</li> <li>No intrinsic value if market price is below exercise price</li> <li>Finite life (10 years from grant), usually must be exercised within 90 days of leaving company</li> <li>Maximum of \$100,000 grant value can vest in any calendar year</li> <li>Vest according to a specific schedule, and only exercisable upon or after vesting</li> </ul>	<ul style="list-style-type: none"> <li>Offered by many public companies</li> <li>If offered, generally must be made available to all employees</li> <li>Allows for purchase of company stock at discount from fair market value and without commissions</li> <li>Discounts, look-back periods and longer offering periods can be used to calculate purchase price</li> <li>Maximum of \$25,000 per calendar year</li> <li>ESPP shares most likely to be employees’ “long stock” exposure to company because of discount and tax deferral</li> </ul>
<b>Tax at Vesting</b>	Ordinary income tax + FICA <sup>1</sup> on market value of shares at vesting date <sup>3</sup>	None	None	N/A
<b>Tax at Exercise, (ESPP, Tax at Purchase)</b>	N/A	Ordinary income tax + FICA <sup>1</sup> on spread of market price over exercise price <sup>4</sup>	None unless exercise triggers AMT <sup>2</sup> (IRS Form 6251 Worksheet)	None (shares are purchased with after-tax dollars)
<b>Cost Basis</b>	Market price at vesting date	Market price at exercise	Exercise (grant) price	Purchase price + discount reported as ordinary income
<b>Tax at Sale</b>	Capital gains <sup>4</sup> above market price at vesting (holding period begins day after vesting)	Capital gains <sup>4</sup> above market price at exercise (holding period begins day after exercise)	See reverse for definitions and taxation examples	See reverse for definitions and taxation examples
<b>Considerations</b>	<ul style="list-style-type: none"> <li>Taxed as ordinary income at vesting</li> <li>Client cannot control timing of taxable events at vesting</li> <li>Can hold shares long after vesting</li> <li>Employer may withhold too little (22% federal + state + FICA)</li> </ul>	<ul style="list-style-type: none"> <li>Purchase must be funded unless cashless exercise</li> <li>Spread taxed as ordinary income</li> <li>May be under water or expire worthless</li> <li>Can hold shares long after exercise</li> <li>Employer may withhold too little (22% federal + state + FICA)</li> </ul>	<ul style="list-style-type: none"> <li>Purchase must be funded (cashless exercise would be disqualifying disposition)</li> <li>May be under water or expire worthless</li> <li>Exercise could trigger AMT<sup>2</sup></li> <li>Shares held 1+ years from exercise and 2+ years from grant get long-term capital gains treatment on sale price minus exercise price (otherwise, disqualifying disposition)</li> </ul>	<ul style="list-style-type: none"> <li>Potential for concentrated position of employer stock</li> <li>Shares held 1+ years from purchase and 2+ years from enrollment get long-term capital gains treatment on any appreciation (otherwise, disqualifying disposition)</li> <li>Any employer discount is subject to ordinary income tax at disposition of shares</li> </ul>
<b>Potential Strategies</b>	Sell upon vesting and diversify or donate cash proceeds	Cashless exercise: Sell upon exercise and diversify or donate cash proceeds	Exercise and hold for one year to avoid a disqualifying disposition, then consider diversifying or hold for the long term.	Hold for the long term (could be the primary exposure to employer stock)

<sup>1</sup>FICA = Payroll taxes (6.2% Social Security and 1.45% Medicare tax), generally 7.65%. <sup>2</sup>AMT = alternative minimum tax. <sup>3</sup>May also be subject to 0.9% Additional Medicare Tax above certain income thresholds. <sup>4</sup>May also be subject to additional 3.8% net investment income tax. The information contained herein has been prepared solely for informational purposes and is not intended as tax advice. Eaton Vance does not provide tax advice and does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness or relevance of any information contained herein and takes no responsibility. Investors should consult a tax and/or legal advisor before making any tax-related investment decisions. Prepared in cooperation with Eaton Vance’s Wealth Strategies Group. Information as of November 29, 2024 but subject to change without notice. This information refers to the equity of public companies.

# Taxation Examples

## Restricted Stock Units (RSUs)

10,000 RSUs granted at \$100 grant price (grant price is irrelevant after grant date)

Vesting Schedule	Vested Shares	Market Price	Taxable Ordinary Income	Withholding (<\$1M)	Withholding (>\$1M)
Year 1	1,000	\$130	\$130,000	\$45,045	\$64,545
Year 2	1,500	\$140	\$210,000	\$72,765	\$104,265
Year 3	2,000	\$160	\$320,000	\$110,880	\$158,880
Year 4	2,500	\$120	\$300,000	\$103,950	\$148,950
Year 5	3,000	\$90	\$270,000	\$93,555	\$134,055

Withholding (supp. income <\$1M): 22% federal + 5% state (assumed) + 7.65% FICA = 34.65%<sup>1</sup>  
 Withholding (supp. income >\$1M): 37% federal + 5% state (assumed) + 7.65% FICA = 49.65%<sup>1</sup>

## Nonqualified Stock Options (NQSOs)

20,000 NQSOs granted at \$50 grant price (grant price is highly relevant after grant date)

Exercise Schedule	Shares	Market Price	Taxable Ordinary Income	Withholding (<\$1M)	Withholding (>\$1M)
Year 1	0	\$40	\$0	\$0	\$0
Year 2	0	\$45	\$0	\$0	\$0
Year 3	4,500	\$60	\$4,500	\$15,593	\$22,343
Year 4	0	\$48	\$0	\$0	\$0
Year 5	8,500	\$75	\$212,500	\$73,631	\$105,506
Year 6	7,000	\$80	\$210,000	\$72,765	\$104,265

Withholding (supp. income <\$1M): 22% federal + 5% state (assumed) + 7.65% FICA = 34.65%<sup>1</sup>  
 Withholding (supp. income >\$1M): 37% federal + 5% state (assumed) + 7.65% FICA = 49.65%<sup>1</sup>

<sup>1</sup>May also be subject to 0.9% Additional Medicare Tax above certain income thresholds. The information contained herein has been prepared solely for informational purposes and is not intended as tax advice. Eaton Vance does not provide tax advice and does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness or relevance of any information contained herein and takes no responsibility. Investors should consult a tax and/or legal advisor before making any tax-related investment decisions. Investors should work with their tax professionals to monitor potential tax changes in 2025. Prepared in cooperation with Eaton Vance's Wealth Strategies Group. Information as of November 29, 2024, but subject to change without notice. This information refers to the equity of public companies.

For more information and investment ideas, please contact [Eaton Vance's Wealth Strategies Group](#) at (617) 672-8500.

## Elevate Your Practice

Eaton Vance Advisor Institute is committed to providing financial advisors with strategies and insights designed to help grow their practices. To learn more about how we can help you deepen existing relationships and attract new clients, please contact your Eaton Vance representative or visit [eatonvance.com](https://eatonvance.com).

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

## Incentive Stock Options (ISOs)

\$10/share grant price, \$15/share market price at exercise (grant price is highly relevant after grant date)

Holding Period	Sale Price	Tax Treatment
Less than 1 year (disqualifying)	\$17/share	\$5 ordinary income + \$2 short-term capital gain
1+ year from exercise and 2+ years from grant (qualifying)	\$17/share	\$7 long-term capital gain (no ordinary income)
Less than 1 year (disqualifying)	\$12/share	\$2 ordinary income

Disqualifying disposition: Hold shares less than 2 years from grant or 1 year from exercise.  
 Qualifying disposition: Hold shares more than 2 years from grant and 1 year from exercise.  
 No FICA or withholding at exercise or sale. Dispositions include sales, gifts and transfers. May also be subject to additional 3.8% net investment income tax.

## Section 423 Employee Stock Purchase Plan (ESPP)

15% company discount with look-back; Market price per share: \$50 at enrollment (start of offering), \$55 at purchase (end of offering); Employee gets stock at \$42.50 per share (85% of \$50)

Holding Period	Sale Price	Tax Treatment
Less than 1 year (disqualifying)	\$60/share	\$12.50 ordinary income + \$5 short-term capital gain
1+ year from purchase and 2+ years from enrollment (qualifying)	\$60/share	\$7.50 ordinary income + \$10 long-term capital gain
Less than 1 year (disqualifying)	\$45/share	\$12.50 ordinary income + \$10 short-term capital loss

Disqualifying disposition: Hold shares less than 2 years from enrollment or 1 year from purchase.  
 Qualifying disposition: Hold shares more than 2 years from enrollment and 1 year from purchase.  
 No FICA or withholding at purchase or sale. Dispositions include sales, gifts and transfers. May also be subject to additional 3.8% net investment income tax.