

DAVIES WEALTH MANAGEMENT

The Executive's Guide to **RSU** **Tax Optimization**

5 strategies corporate professionals use to keep more of their equity compensation — and the costly mistakes to avoid.

Davies Wealth Management

Fee-Only Fiduciary | Stuart, Florida

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What's Inside This Guide

Every section is designed to help you make better decisions about your RSU compensation — whether you're vesting your first grant or managing a concentrated position worth millions.

UNDERSTANDING RSUS

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WHO THIS GUIDE IS FOR

Corporate executives, tech professionals, and anyone receiving RSU grants as part of their compensation. Whether your RSUs represent 10% or 80% of your total comp, the tax strategies in this guide can help you keep more of what you've earned.

How RSUs Are Taxed

Restricted Stock Units are straightforward in concept but complex in execution. Unlike stock options, you don't choose when the taxable event occurs — it happens automatically at vesting.

The Two Tax Events

1. At Vesting (Ordinary Income)

When RSUs vest, the fair market value of the shares on the vesting date is taxed as ordinary income — just like your salary. This amount appears on your W-2 and is subject to federal income tax, state income tax (if applicable), Social Security, and Medicare taxes.

Tax rate: Up to 37% federal + 3.8% Net Investment Income Tax for high earners.

2. At Sale (Capital Gains)

Any gain or loss after vesting is a capital gain or loss. Your cost basis is the fair market value at vesting. If you hold for more than one year after vesting, gains qualify for long-term capital gains rates (0%, 15%, or 20%).

Tax rate: 0-20% federal for long-term gains; ordinary rates for short-term gains.

The RSU Withholding Gap

This is the most common — and most expensive — surprise for RSU recipients.

22%

TYPICAL SUPPLEMENTAL
WITHHOLDING RATE

37%

ACTUAL TOP FEDERAL
TAX BRACKET

15%+

POTENTIAL GAP
OWED AT TAX TIME

Most employers withhold at the supplemental income flat rate of 22% (or 37% for amounts over \$1 million in a calendar year). But if your total income puts you in a higher bracket, you'll owe the difference when you file your return.

EXAMPLE: THE \$150,000 SURPRISE

Sarah, VP of Engineering | Base salary: \$280,000 | RSU vesting: \$420,000

Her employer withholds 22% on the RSU vesting = \$92,400 withheld.

But her total income of \$700,000 puts her in the 35% federal bracket. Actual tax on the RSU portion: approximately \$147,000.

Gap owed at tax time: ~\$54,600 — plus state taxes if she lived in a state with income tax.

This is educational illustration only. Actual tax liability depends on individual circumstances including deductions, filing status, and state of residence. Consult a qualified tax professional.

KEY INSIGHT

The withholding gap is not a penalty or a mistake by your employer — it's a structural feature of how supplemental income withholding works. Planning for it is essential.

STRATEGY 1 OF 5

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Strategy 1: Tax Bracket Management Across Vesting Dates

Your RSU vesting schedule is fixed — but the rest of your income plan doesn't have to be. Strategic timing of other income and deductions around your vesting dates can meaningfully reduce your effective tax rate.

How It Works

The U.S. tax system is progressive: income is taxed at increasing rates as it rises through brackets. When a large RSU vest pushes your income into a higher bracket, every additional dollar of income in that bracket costs more in taxes.

| 2025 FEDERAL TAX BRACKET | SINGLE FILER INCOME RANGE | MARRIED FILING JOINTLY |
|--------------------------|---------------------------|------------------------|
| 10% | \$0 - \$11,925 | \$0 - \$23,850 |
| 12% | \$11,926 - \$48,475 | \$23,851 - \$96,950 |
| 22% | \$48,476 - \$103,350 | \$96,951 - \$206,700 |
| 24% | \$103,351 - \$197,300 | \$206,701 - \$394,600 |
| 32% | \$197,301 - \$250,525 | \$394,601 - \$501,050 |
| 35% | \$250,526 - \$626,350 | \$501,051 - \$751,600 |
| 37% | Over \$626,350 | Over \$751,600 |

Tactical Moves

1 Maximize pre-tax retirement contributions in heavy vesting years

Max out your 401(k) (\$23,500 in 2025, plus \$7,500 catch-up if 50+), HSA, and any deferred compensation plans. Every dollar contributed reduces your taxable income dollar-for-dollar.

2 Bunch charitable deductions into high-income years

If you plan to give charitably over multiple years, concentrating donations in a year with heavy RSU vesting maximizes the tax benefit of each donated dollar. Consider a donor-advised fund to "front-load" several years of giving.

3 Defer bonuses or other discretionary income if possible

If your employer allows bonus deferral or you have consulting income, consider shifting it to a lower-income year. Even a small shift between brackets saves real money.

4 Accelerate deductions into the vesting year

Prepay state and local taxes (up to the \$10,000 SALT cap), make January mortgage payments in December, or prepay business expenses if you have a side business.

FLORIDA ADVANTAGE

Florida has no state income tax. If you're considering relocating from a high-tax state, establishing Florida domicile before a major RSU vesting event can save 5-13% in state taxes on the entire vesting amount. Proper domicile establishment requires more than just buying a home — consult with an advisor familiar with multi-state tax rules.

Strategy 2: Sell-to-Cover vs. Sell-All

At vesting, you typically choose one of three options for handling the tax bill. Each has different implications for your portfolio concentration and tax efficiency.

| OPTION | WHAT HAPPENS | BEST WHEN |
|----------------------|---|--|
| Sell-to-Cover | Employer sells just enough shares to cover withholding; you keep the rest | You're bullish on the stock AND it's less than 10-15% of your portfolio |
| Sell All | All shares sold at vesting; cash deposited after withholding | You want to diversify immediately or the stock is already a large position |
| Pay Cash | You pay taxes from other funds; keep all shares | Rarely optimal — ties up cash and increases concentration risk |

THE QUESTION TO ASK YOURSELF

"If someone handed me this amount in cash today, would I use it to buy my company's stock?" If the answer is no, sell-all is likely the better choice — regardless of your outlook on the company.

Strategy 3: Diversification Without the Tax Drag

Selling RSU shares immediately at vesting has **no additional tax consequence** beyond what you already owe as ordinary income. This is the most misunderstood aspect of RSU taxation.

Why Immediate Sale Is Often Tax-Neutral

At vesting, your cost basis is set to the fair market value. If you sell immediately, your gain (or loss) is essentially zero — you've already been taxed on the full value as ordinary income. There is no "extra" tax for selling right away.

The tax cost only increases if you *hold* and the stock *rises*. And if the stock *falls* after vesting, you've paid taxes on value you no longer have.

The Concentration Risk Reality

40%

OF EXECUTIVES HAVE
>25% IN COMPANY STOCK

10-15%

MAXIMUM SINGLE-STOCK
POSITION (BEST PRACTICE)

72%

OF CONCENTRATED
POSITIONS UNDERPERFORM

Consider a systematic diversification plan: sell a fixed percentage of shares at each vesting event and reinvest into a diversified portfolio aligned with your overall financial plan.

INSIDER TRADING WINDOWS

If you're subject to your company's trading policy, set up a 10b5-1 plan to automate sales during open windows. This removes emotional decision-making and ensures consistent diversification regardless of market conditions.

Strategy 4: Charitable Giving With Appreciated RSU Shares

If you hold RSU shares past vesting and they appreciate, donating those shares directly to a charity or donor-advised fund can create a powerful double tax benefit.

How It Works

When you donate appreciated stock held for more than one year:

1. You receive a **charitable deduction** for the full fair market value
2. You **avoid paying capital gains tax** on the appreciation
3. You can donate up to **30% of AGI** in appreciated stock (with 5-year carryforward)

EXAMPLE: CASH DONATION VS. STOCK DONATION

Michael, CFO wants to donate \$100,000 to his alma mater.

| METHOD | CASH DONATION | STOCK DONATION |
|------------------------------------|-----------------|-----------------------|
| Donation value | \$100,000 | \$100,000 |
| Original cost basis | N/A | \$40,000 (at vesting) |
| Capital gains avoided | \$0 | \$60,000 |
| Tax on avoided gains (23.8%) | \$0 | \$14,280 saved |
| Charitable deduction (35% bracket) | \$35,000 | \$35,000 |
| Total tax benefit | \$35,000 | \$49,280 |

Same charitable impact. \$14,280 more in tax savings. This is educational illustration only — actual results depend on individual tax circumstances.

Donor-Advised Funds: The Strategic Tool

A donor-advised fund (DAF) lets you make a large, tax-deductible contribution now — receiving the full deduction in a high-income year — while distributing grants to charities over time. This is especially valuable in years with large RSU vestings.

Advantages

- Immediate tax deduction in high-income year
- Investments grow tax-free inside the fund
- Distribute to charities on your own timeline
- Simplifies record-keeping for multiple donations
- Can accept appreciated stock directly

Considerations

- Contributions are irrevocable
- Minimum initial contribution varies by provider
- Annual administrative fees (typically 0.6%)
- Must distribute to qualified 501(c)(3) organizations
- Some providers have minimum grant amounts

TIMING TIP

The ideal time to contribute appreciated RSU shares to a DAF is in the same tax year as a large vesting event. You "bunch" your charitable giving into the year when the deduction is most valuable, then distribute grants over 3-5 years.

Strategy 5: Coordinating RSUs With Your Full Financial Plan

RSU tax planning doesn't happen in isolation. The most effective strategies coordinate your equity compensation with retirement planning, estate planning, insurance, and cash flow management.

The Coordination Points

RSUs + Retirement Planning

Large RSU vestings create an opportunity to maximize tax-advantaged retirement contributions. In heavy vesting years, consider maxing out every available vehicle:

- **401(k):** \$23,500 + \$7,500 catch-up (2025)
- **Backdoor Roth IRA:** \$7,000 (\$8,000 if 50+)
- **HSA:** \$4,300 individual / \$8,550 family (2025)
- **Mega Backdoor Roth:** Up to \$69,000 total 401(k) limit if your plan allows after-tax contributions
- **Deferred Compensation:** Unlimited deferrals if available (457(b) or NQDC)

RSUs + Estate Planning

For executives with significant RSU wealth, estate planning considerations include:

- Gifting shares to family members in lower tax brackets (subject to annual gift exclusion limits)
- Funding irrevocable trusts with vested shares to remove value from your taxable estate
- Coordinating with the federal estate tax exemption (\$13.99M per person in 2025 — scheduled to decrease after 2025 without legislative action)

RSU income is lumpy by nature. Build a cash flow plan that accounts for:

- Estimated tax payments to avoid underpayment penalties
- Emergency fund sized for your total compensation, not just base salary
- Debt management: should you use vesting proceeds to pay down a mortgage or invest?

THE COORDINATION EFFECT

Jennifer, SVP at a tech company | Base: \$350,000 | RSUs vesting: \$600,000 | Total income: \$950,000

Without coordination: Tax bill of approximately \$332,500 (effective rate ~35%)

With coordinated planning:

- Max 401(k) + catch-up: saves ~\$11,470 in taxes
- Max HSA: saves ~\$3,190 in taxes
- \$150,000 to DAF with appreciated shares: saves ~\$67,080 in taxes + avoided capital gains
- Mega Backdoor Roth conversion: \$38,500 grows tax-free for retirement

Estimated tax savings: ~\$81,740

Illustrative example only. Actual savings depend on individual circumstances, deductions, state taxes, and current tax law. Tax laws are subject to change. Consult a qualified tax professional before implementing any strategy.

Year-Round RSU Tax Planning Checklist

Print this page and use it to stay on top of your RSU tax obligations throughout the year.

Q1: January - March

- Review vesting schedule for the year ahead
- Estimate total income including RSU vestings
- Set up or adjust estimated tax payments
- Review trading window calendar
- Max out retirement contributions early (if cash allows)

Q2: April - June

- File tax return; review prior year RSU reporting
- Verify cost basis on brokerage statements
- Review concentration — is company stock >15%?
- Consider mid-year Roth conversion if bracket allows
- Check withholding adequacy for upcoming vestings

Q3: July - September

- Mid-year tax projection with advisor
- Tax-loss harvesting review in taxable accounts
- Review estate plan if RSU value has grown significantly
- Assess charitable giving strategy for remainder of year
- Update financial plan with actual vesting values

Q4: October - December

- Final tax projection before year-end
- Execute charitable giving (DAF contribution if bunching)
- Harvest tax losses to offset gains
- Make final estimated tax payment if needed
- Set up 10b5-1 plan for next year if needed
- Review and update beneficiary designations

When to Work With a Fiduciary Advisor

Self-managing RSU tax planning works for simple situations. Consider working with a fee-only fiduciary advisor when:

1 Your RSU income exceeds \$200,000/year

The tax complexity increases significantly at higher income levels, and the savings from proactive planning can be substantial.

2 Company stock is more than 15% of your net worth

Concentration risk requires a thoughtful diversification strategy that balances tax efficiency with portfolio risk management.

3 You're navigating a life transition

Job change, retirement, divorce, or relocation — each creates unique RSU planning considerations that benefit from professional guidance.

4

You have stock options AND RSUs

Coordinating ISO/NSO exercise timing with RSU vesting creates layered complexity that can generate significant savings — or costly mistakes.

Ready to Optimize Your RSU Strategy?

Schedule a complimentary discovery call to discuss your specific equity compensation situation. As a fee-only fiduciary, we work exclusively in your interest — no commissions, no conflicts.

[Schedule Your Free Consultation](#)

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