Employee stock options

Summary of withholding taxes

Wealth Management

Who is affected?

This employee stock options summary of withholding taxes addresses important tax issues and consequences associated with the purchase, transfer and sale of your company's stock. All U.S. employees recognize a taxable event due to the exercise of an option. Please note this information applies to U.S. federal tax guidelines only. State and local tax regulations may affect the calculations and therefore the tax consequences. Employees in foreign countries may be subject to different guidelines. You must check with your tax advisor for evaluation of your complete tax consequences.

What taxes are withheld? Non-qualified stock option (NQSO)

Whether you exercise using the cash exercise program or the cashless exercise program (same-day sale), you are obligated to pay federal, state, local and FICA (applicable Social Security and Medicare) taxes on the gain at the time of exercise.

Where can I find out what has been withheld?

RBC Wealth Management sends an exercise confirmation statement to your home address each time you exercise a stock option. This statement provides specific information about your exercise, including information to assist you in correctly reporting your exercise at tax time. In addition, each year in late January, you receive a package from your company and RBC containing reports reflecting all of your activity for the previous year and a breakdown of the taxes withheld for each transaction. These reports are designed to help you when you are working with your tax advisor to file your taxes.

When are taxes withheld?

If you are employed by your company and you are exercising an NQSO, taxes are withheld at the time of exercise whether you exercise using the cash exercise program or the cashless exercise program (same-day sale). Taxes may voluntarily be withheld when you are exercising an incentive stock option if you provide RBC Wealth Management with a written request to do so at the time of exercise.

Why are taxes withheld?

According to the Internal Revenue Code, the gain on an NQSO exercise is considered ordinary income and reported on your W-2 for the year in which the exercise occurred. When you sell the shares acquired, the difference between your adjusted cost basis and your actual sales price results in either a capital gain or loss. You must report this as part of your tax filing.

How is tax withholding calculated?

If you are participating in either the cashless exercise (same-day sale) program or the cash exercise program, the gain used for calculating ordinary income on an NQSO exercise is calculated using the fair market value on the exercise date.

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