MedTech Wealth Advisor Podcast Episode 12: RSU Mistakes to Avoid (Part 3)

[00:00:00] **Voiceover:** Welcome to the MedTech Wealth Advisor Podcast, a show dedicated to teaching professionals and entrepreneurs in the MedTech field how to save more money, pay less taxes, and become financially independent. Join certified financial planner professional Matthew Nelson as he draws from years of experience and speaks with guest experts to solve the biggest challenge, aligning your money with your values while thriving in the mission-driven world of med tech.

[00:00:33] **Bill Tucker:** Hello and welcome to the MedTech Wealth Advisor podcast with the MedTech advisor himself. Matt Nelson. Matt, how are you? Good to see you again.

[00:00:43] **Matthew Nelson:** Ah, very good. Very good. Nice to see you too, bill. Happy New Year.

[00:00:47] **Bill Tucker:** Yeah, thanks. Happy New Year to you as well. So we're starting off 2024. What are we gonna talk about here today?

[00:00:52] **Matthew Nelson:** This is gonna be the third part in a series where we we're discussing R U'S restricted stock units. Yes. And I made sure to bring Jacob the RU back with me today because, uh, it's been super helpful to have him on the first couple podcasts is we, dissect this topic.

[00:01:08] **Bill Tucker:** and you know, what, what we're, what we're talking about that for those who are like going away, this is the third.

[00:01:13] **Bill Tucker:** Go back and look at the podcast because they've been very, very helpful. You can certainly listen to this one right now, but you might wanna listen to one and two as well. And they're easy enough to find in, uh, Matt's podcast list. So

[00:01:26] **Matthew Nelson:** yeah. Thank you, bill. It's, we realized it was a big enough topic.

[00:01:29] **Matthew Nelson:** We needed to [00:01:30] split it up into three parts. And while, listeners may not hear them exactly in a rapid succession, yeah, they'll all be there within a couple. And so today, um, we're gonna focus on mistakes to avoid. So the first two, we started off with what are RSUs, what are restricted stock units?

[00:01:48] **Matthew Nelson:** and then the second one was more focused on how to maximize them. How to make the most of them. So now we're just gonna think about, all right, but what, what are some mistakes we need to avoid? you know, to not do, undo all the good work. and like I said, I've got Jacob with me. Jacob, glad to have you back.

[00:02:03] **Jacob LaRue:** Yeah, I'm excited to talk about this topic 'cause there's quite a few mistakes that we can make with RSUs,

[00:02:08] **Matthew Nelson:** you know, and after you made your debut here, this last couple, I think we're gonna have to have you on more regularly. This may be a regular thing. Well done, Jacob.

[00:02:17] **Jacob LaRue:** Yeah, we'll, we'll see where that goes.

[00:02:19] **Jacob LaRue:** Yeah, right, exactly.

[00:02:21] **Matthew Nelson:** Well, so, you know, whether you, whether you're working in med tech for a, for a public or private company, it's, a lot of these mistakes are gonna apply to you as the listener. you know, and as just a, like a quick story, you know, we've, we have, um, we'll, we will call this client Julie.

[00:02:38] **Matthew Nelson:** She had a thousand restricted stock units that were gonna vest on January 2nd, of a calendar year. But she didn't have a reminder on her, her own calendar, um, or a strategy for what to do after they vested. So, you know, by the time she realizes this and, uh, you know, lets us know, the RSUs had already vested.

[00:02:59] **Matthew Nelson:** It was [00:03:00] June of that calendar year, and the stock price had dropped something like 20%. And so that's, that's not the situation you wanna be in. you know, this, this basically ended up costing her thousands of dollars just in, just in potential value, let alone all the tax headaches. So that's, that's some of the things we're gonna jump into today.

[00:03:19] **Bill Tucker:** That's great

[00:03:20] **Bill Tucker:** because, you know, I hate learning from my mistakes. I'd rather learn from other people's mistakes.

[00:03:28] **Matthew Nelson:** Yes. So the five, we, we broke it down into five sections. Uh, we're gonna talk about, the mistakes of not understanding your grant investing triggers. not having a sell strategy, not withholding enough for taxes.

[00:03:42] **Matthew Nelson:** Not properly tracking your tax reporting and then finally, trying to avoid, losing a grant to an early termination. So that's kind of five areas we're gonna get into. So let's kick that off. Jacob, the first one that we see a lot, unfortunately, I mean, as, as sim simplistic as it sounds, but, it's not because this stuff isn't.

[00:04:02] **Matthew Nelson:** It's not what people do every day. They're working on med, you know, they're mere working on their, their job. You know, we're our job's to understand this, but just simply not understanding what you own, what, what your grants are for, and the vesting triggers. So let's talk about that a little bit. Do, do you have some comments or where you wanna start there?

[00:04:21] **Jacob LaRue:** I think the, the big one there is, like you said, the, the grant letters that these employees will receive [00:04:30] should really tell them exactly what they're getting, whether it's an RSU, a non-qualified stock option, or an incentive stock option. So you really have to just pay close attention to your grant letters.

[00:04:41] **Jacob LaRue:** And sometimes even, like we talked about in previous episodes, your, your offer letter or negotiation letters. They're gonna tell you exactly what you have. So, those pieces of information are very important. I think the, the other thing that you'll find in your grant letters most of the time is one of the biggest keys to any type of equity compensation, and that's your, you know, grant dates, investing triggers, invest dates.

[00:05:04] **Jacob LaRue:** So I think, Matt, if you wanted to hit on those and what mistakes we see sometimes with those.

[00:05:09] **Matthew Nelson:** so the, the vesting triggers, remember, They're, they're most often time-based, but then can also have a double trigger to them that, would maybe be some performance-based, Formula.

[00:05:22] **Matthew Nelson:** And so just understanding exactly how those work, because you could be thinking, oh, this is just a four year situation. or, or confuse the two. And I, again, it as, as obvious as that sounds, it's not necessarily obvious, when you're not doing this all the time. so know knowing your vesting and, and trigger dates and.

[00:05:38] **Matthew Nelson:** The ramifications are if you, if you own, let's say multiple types of equity compensation, we're talking about RSUs today, restricted stock units, but let's say you also have stock options, and many of the other types of equity comp that could be there. we probably need to track those vesting and, the vesting dates and the triggers.

[00:05:59] **Matthew Nelson:** [00:06:00] In a separate timelines, 'cause it's easy to get those confused. So at least at our firm, if you have multiple types of equity comp, we're tracking those on multiple different timelines and spreadsheets, to make sure that we're ready for each. They don't necessarily line up. so then along with that would be if it, if there is a double trigger, not just timeline based, really knowing that definition.

[00:06:22] **Matthew Nelson:** it could be as simple as a definition as the comp. You're at a private company and the company goes public. but if you are, and that's, it's a, that's an obvious enough one to understand. your situation is gonna matter till the company goes public. But if you're in a public company. it could be a performance based trigger.

[00:06:38] **Matthew Nelson:** And, and, and a lot of times people are gonna understand what this means, but is it a stock price situation? Is it a revenue change? Is it, you know, your team's performance? So there's a number of things to, to go on there. And those could be separate definitions, again, like I'm saying, for your RSUs, then maybe for your stock options or some other piece.

[00:06:56] **Matthew Nelson:** So track 'em all separately and then understand how those vesting dates. Would line up with actual life events and tax events. So it's, it's one thing to like understand, oh, this is when they're due, but, well, how, why does that matter? You know, where did, where did those hit compared to when you need cash or when you're going to have an expense of taxes?

[00:07:17] **Bill Tucker:** You know, Matt, can I jump here really quickly just to ask a quick question? Yeah. You're talking about conditions, are those usually spelled out? In the grant or in the paper that the, that the employee gets. I'm assuming it is, but I don't, I don't [00:07:30] want to just assume that it is. I mean, it's something they can read and understand or they can hand to you and you can say, this is, listen, just so you are clear, these are the terms.

[00:07:40] **Matthew Nelson:** That's right. Yeah. You're exactly right. It, it should be spelled out very clearly. and most of the time people are gonna be aware of the general terms of it. Mm-Hmm. When they come to us and talk to us, they'll know like, oh, this has to happen. For the trigger, but that doesn't always mean that they, they have that exactly right.

[00:07:56] **Matthew Nelson:** If, if you're getting multiple, uh, tranches of these things or multiple, sections, you may be confusing the two or that's how it worked last time. And actually this one works a different way. So it's just always better to have the exact grant letters, everything current, we'll read through it all, and you know, just kind of nerd out highlighting everything that needs to happen.

[00:08:16] **Matthew Nelson:** Put it in, uh, the right, the proper order. Mm-Hmm. And then we're everybody's on the same page.

[00:08:21] **Bill Tucker:** Great. Okay. Great. Sorry to interrupt.

[00:08:24] **Matthew Nelson:** Yeah, no, that's a great question. Anything you wanted to add to that kind of section, Jacob on?

[00:08:28] **Jacob LaRue:** Yeah, the only thing I would add there is, you know, it's not just if you have, RSUs and then a different form of equity comp, like stock options, sometimes it can get confusing when you have multiple sets of RSUs with different, different vesting dates.

[00:08:41] **Jacob LaRue:** So, the triggers might be different on each, each vest date, which is the complexity that, that most people run into.

[00:08:48] **Matthew Nelson:** that's a very good point. Yes.

[00:08:49] **Jacob LaRue:** Mistake number two is a big one too. I think this is kind of referenced in our, uh, Julie example above, but not having a proper sales strategy is something that, uh, can really cost you big [00:09:00] time bucks.

[00:09:00] **Matthew Nelson:** Yes. The, the big one I think with that is, kind of broke it down into three points, not having the sales, uh, sales strategy is the mistake. To break that down, to think need to really understand your cash needs. So I kind of mentioned it above, but having a steel strategy is kind of hard to develop until you understand what is the money gonna be used for, when are the goal dates, when are the taxes gonna be due?

[00:09:22] **Matthew Nelson:** So mapping that all, all out and like I mentioned above next, then you can, you know, just make sure that you're ready. With a plan on each of those dates. So it's one thing to understand when the dates are, but now we actually have to have them on our calendar. We actually have to have meetings set up ahead of time.

[00:09:37] **Matthew Nelson:** We actually have to say, these are the sell prices we're gonna do at those dates. Don't just kind of put 'em on in a calendar and kind of forget about it. and, a big point with that is needing to potentially coordinate those with any trading windows. So depending on your position in the company.

[00:09:52] **Matthew Nelson:** You may need to, sort of pay attention to certain trading windows and, won't affect everybody but it, if you are affected, you'll know. the last one is especially important, um, in a private company. So again, with this not having a sales strategy mistake, when you're in a private company, you can't always sell when you want to.

[00:10:10] **Matthew Nelson:** Again, sounds obvious, but just keep that in mind. So, you've lined up your cash needs. you've thought about the, the triggers, but you can't necessarily sell exactly when you want to. And you need to be ready because when you're a private company, 'cause it can come up kind of quickly. Like it isn't necessarily like you're gonna get a full 12 months heads up that we're [00:10:30] going IPO.

[00:10:31] **Matthew Nelson:** Like it could be that you have a, a good sense of what's happening and then before you know it, things move real fast. And you know, you have to make some decisions pretty quick. You have to, uh, the market changes very fast, the pending price might be very different. So having all of that strategy ready way ahead of time is really important.

[00:10:52] **Jacob LaRue:** Right. Yeah. Especially with private companies too. 'cause if, if it does go IPO there's typically a blackout period that kind of locks you out from selling or hitting those certain metrics that you wanted to hit. So having a plan in place ahead of time is super important when you're working at a private

[00:11:09] **Jacob LaRue:** company.

[00:11:09] **Matthew Nelson:** Yeah. You know? Right. And, and actually right after the IPO, there's, there's quite a bit of additional volatility with the stock, with a bit of additional up and down. Um, and that can, that can happen so fast that if you don't have that plan ahead of time, before you know it, like the price could have changed 20 or 30%.

[00:11:27] **Matthew Nelson:** So What's number three?

[00:11:29] **Jacob LaRue:** Yeah, let's talk about, uh. Another big one for people. 'cause nobody likes taxes. But oftentimes we see, um, you know, there's a lot of tax withholding issues on RSUs. Uh, so just the tax withholding with these and how they relate to your other income, I think is a big one that we need to talk about.

[00:11:47] **Matthew Nelson:** Yeah, absolutely. I'm sure, bill, you've got yours all buttoned up. You're probably about ready to file right now. I mean, it's

[00:11:53] **Bill Tucker:** Oh yeah. no. I just, I pay my taxes, but it's always like a [00:12:00] painful thing, you know?

[00:12:00] **Matthew Nelson:** Yes, right. Yeah, it, you know, so exactly to that point. It's already painful enough. But then when you've got this great equity compensation benefit, that can just create.

[00:12:14] **Matthew Nelson:** a huge, almost like a, a, gotcha. You know, you, you've been getting this extra comp. You think maybe things are going okay, because you have some withholding occurring, but you find out it's not enough. So let's kind of go through a, a, a few of these points here. so now withholding enough for taxes.

[00:12:30] **Matthew Nelson:** So at, at best. You sit on cash all year until you know how much taxes you have to pay. So let's say you get these, these RSUs, these restricted stock units, they vest, they get paid out. You got the cash, you have no idea how much you're gonna owe, so you just sit there on the cash. You know, worried about it, and maybe this happens early in the year and you don't really know what to do.

[00:12:49] **Matthew Nelson:** So now that's not doing you much good, uh, for 12 months until you actually pay your tax bill. So, at least you don't have a surprise if you've got the money to pay it. But that's probably not optimal. you certainly wouldn't want to go take all that money and, and put it in a, in a risky investment, you know, the stock market and 12 months later you don't have enough to pay the taxes.

[00:13:08] **Matthew Nelson:** So, at worst. The money is spent on other goals, though. You don't sit on the cash, but you decided that the deck you've been waiting to, you know, like redo, uh, it's like, oh, that's, you know, it's April May is coming up. I think I wanna use that before you know it, half it gets used, you know, um, for that.

[00:13:25] **Matthew Nelson:** And you, you thinking you'll get a bonus later in the year to pay the taxes or something. But that is, [00:13:30] I've seen that happen and it goes sideways. So you, you really gotta plan ahead. You know, the, the result is just really that you don't wanna get slammed with a, bill after allocating the, the money elsewhere.

[00:13:40] **Matthew Nelson:** So, you know, how can we kind of address that a little bit, Jacob?

[00:13:44] **Jacob LaRue:** I think that the biggest thing is just planning around those taxes and getting a sense of, you know, what they might be. and a lot of times what we'll have to do is look at your pay stubs and what you're withholding on your normal pay because, RSUs, as we're about to talk about, have a little different, Tax withholding that comes into play that might be different than your normal wages. So, you know, on your, your normal W four, you fill out how many allowances you want. Based off if you're married or how many kids, things like that. But RSUs, they have their own supplemental wage, uh, tax withholding. Matt, why don't you go ahead and talk about that a little and just how those two things can differ.

[00:14:25] **Matthew Nelson:** like Jacob was saying, they're really completely disconnected from your regular wages, your paycheck, your bonus, regular wage rates. cus get a supplemental withholding rate, which is a 22% flat rate. And, and that goes for, for supplemental wage income under a million.

[00:14:42] **Matthew Nelson:** Once it crosses a million, then that flat rate jumps to 37% and that isn't. Keep in mind that isn't the taxes you pay, that's just the amount of withholding that occurs at the time of this vesting. And so it has no real connection to what you're gonna owe or get a refund [00:15:00] for. it's kind of an odd thing.

[00:15:01] **Matthew Nelson:** I'm not sure why. It just doesn't just get tied into regular wage withholding. It would make things a lot easier for people. so that's really the crux to this whole issue. If you're restricted stock units, when they paid out. Had withholding on them the same as your regular wages, this would be a non-issue.

[00:15:19] **Matthew Nelson:** You'd be, have it all covered. Okay. what can, not to belabor this too long here, but if you think about, think it through, it's not that hard for particularly, you know, listeners like in Med Tech that are getting these type of, These units as part of their wages, they're probably above the 22% tax rate, especially if you have both spouses and a household working.

[00:15:41] **Matthew Nelson:** Uh, they could easily be well above that. So and so, you don't even have to get that many issued, and create a, you know, it might not be a huge amount of extra income from the RSUs, but you're almost assuredly not withholding enough. So three ways to fix that. and we're, we'll go through 'em just kind of in order of, let's just say least precise to maybe the most precise 'cause.

[00:16:01] **Matthew Nelson:** Nothing's really perfect in this situation. But, one of the simplest methods to kind of, offset some of this is adjusting your W four filing status. So How do you think about that, Jacob? Just that one.

[00:16:15] **Jacob LaRue:** Yeah. So let's say you're a married household. Both of you have decent incomes, like Matt was talking about.

[00:16:21] **Jacob LaRue:** typically you're gonna say, you know, I'm married, so there might be some extra withholding, or not extra withholding. [00:16:30] Maybe you have kids, which then creates a little less withholding 'cause of the allowances. Maybe what you do instead is fill out your W four. As zero allowance. So then most of your, not most of your income, but more of your income is withheld for taxes because for every allowance you put on your W four, you're getting kind of a tax break.

[00:16:51] **Jacob LaRue:** Right? So if you can back out of it, then you should have more taxes withheld and maybe help your tax bill at the end of the year if these cus do become an issue.

[00:17:01] **Matthew Nelson:** Yeah. and again, like we said, this only, this method's only gonna affect. Regular wages. So it's not gonna be exact, but if you're in a situation where you just get, a few thousand, maybe it's, maybe it's, you know, 5% or 10% of your total wages really are coming from, cus it's not a huge number, you might be able to get away with enough extra withholding just from adjusting, uh, your filing status, at least to get you closer.

[00:17:28] **Matthew Nelson:** Um,

[00:17:29] **Jacob LaRue:** and I think in the show notes, we'll put a. A link to the W four for 2024 too.

[00:17:34] **Matthew Nelson:** Yeah, that'd be good. Yes. So you can just fill it out, turn it in. the second way to fix this little bit, little bit more precise, not quite like, quite there yet, but, uh, just increase the withholding beyond the 22% supplemental wage rate.

[00:17:49] **Matthew Nelson:** Okay. Mm-Hmm. So this really depends on, um, on the company and the custodian. But we're seeing more companies allow this, like for instance, like I think Google and [00:18:00] Pinterest and, and Slack. I at least I've heard from colleagues, that have had pretty good luck with, with some of the bigger companies.

[00:18:05] **Matthew Nelson:** They're, they're allowing the employees to actually increase that 22% minimum rate, specifically for supplemental wage, wage withholding. And if that's the case, that helps a ton. You can kind of estimate the gap between. Where your taxes are for your regular wages. Let's just say you estimate that your regular wages pay, 28%, that's the wage rate.

[00:18:29] **Matthew Nelson:** Well, you could just kind of use that as a close approximation and say let's increase the supplemental wage, withholding up to 28. Again, not perfect, but it's gonna get you a lot closer and all we're really trying to do again, like I said before, is not have a giant surprise at tax time.

[00:18:42] **Jacob LaRue:** Right. I think that's a really good point too, Matt.

[00:18:45] **Jacob LaRue:** 'cause you know, potentially if you owe more taxes, in April, there's this thing called safe harbor. and if you, if you don't meet that safe harbor, it's 90% rule, essentially, you also have to pay some penalties on your taxes because you didn't make the necessary payments. So this should help you at least get closer to that safe harbor number too.

[00:19:05] **Jacob LaRue:** the other one, kind of going back to the W four, but, um, now the W four actually has some different fields that you can enter different incomes in. So it's not just your allowances anymore, it's actually additional income from elsewhere. So let's take your, your normal W four from work.

[00:19:24] **Jacob LaRue:** Somewhere on that form there's gonna be a line item that says, do you have any additional income that is [00:19:30] expected for the year? Guess what? You could put there any estimates that you think your RSUs might generate. So now you can have some extra withholding based off a, a decent estimate on income.

[00:19:41] **Matthew Nelson:** Yeah. And we'll include a, a link to, a withholding estimator on, on the irs.gov website. And it's, it's actually kind of handy. You know it, if you've got all your data in front of you, you just go through and answer the questions and, and get a, a reasonable approximation of what you should be withholding, and then it'll help you fill out your W four form.

[00:20:00] **Matthew Nelson:** in that method that Jacob was talking about works, to some extent, but it can be a little cumbersome because you know it. It's one thing if you get one set of RSUs and you're done for the year, but if you've got this thing happening on a constant basis, stock price is changing. It's sort of hard to know exactly how much.

[00:20:18] **Matthew Nelson:** Income you're gonna have for the year, and then you have to change your W four every time so it can work again. but the last method we're gonna talk about really is probably for most of our clients, is gonna be a better option, and that's just to make estimated tax payments. Hmm. Um, so you, you might still maybe use a combo of what we talked about.

[00:20:37] **Matthew Nelson:** Maybe, maybe you adjust your W four withholdings, or, uh, elections. But we'll help people think about. The right amount for estimated tax payments. It's, it's more precise because we can take some estimates on the equity, on the stock price estimates, on when they're gonna pay out, numbers and so forth.

[00:20:55] **Matthew Nelson:** But then also we have to look back at the total income base. So this is back to, I think Jacob said [00:21:00] something about, uh, uh, the, the pay stubs earlier. Really, we can't do this without. All the pay stubs. We'll take the pay stubs, see how much has been put in 401k, see how much has been withheld. any bonuses that were paid out.

[00:21:12] **Matthew Nelson:** multiple tranches of equity comp and it, it's gonna change throughout the year, but if you do it well and probably gonna need a software to do this, like, One that we use or, or something you can find on your own. You can get pretty close. You, you can get pretty close and make some good estimations.

[00:21:28] **Matthew Nelson:** for sure. Meet the safe harbor levels. You don't have any penalties, you know, at tax time. But the biggest thing that I, that I think is the benefit here is you know that you can spend the cash. So again, if you get this, this payout, you know, on a quarterly basis and you've got some ideas like, well, maybe you do need to repair the deck.

[00:21:46] **Matthew Nelson:** I mean, everybody probably wants to do that. well now if we've done the estimation properly, you know exactly how much you have left over. Pretty close, and you can go ahead and feel free to spend the money or. probably Bill, you know, it's more like, well this is something Jacob's gonna have to deal with pretty soon.

[00:22:00] **Matthew Nelson:** Probably pay a college bill. You know, or, you know, like some sort of a college savings situation. Right.

[00:22:06] **Jacob LaRue:** Got 16 more years. Thank you for that. Exactly. I'm,

[00:22:09] **Bill Tucker:** oh no, Jacob, you have no time. That's right. I mean, you have no time. You think, oh, it's a lot. No, it's not. Lemme tell, you know, to your, to your point, by the way, I, I just have to say I have gotten that phone call from my account.

[00:22:23] **Bill Tucker:** Okay. Where they say, bill, are you sitting down? They're like, uh, no, ed, I'm not sitting down. Why? [00:22:30] Maybe you ought to sit down because you owe a little bit of money. Right? And there is nothing worse than the feeling in the pit of your stomach when they say you is a couple. You've missed it by a few thousand dollars.

[00:22:40] **Bill Tucker:** Heres, and you're like, oh my God. So I, and I tell you that, and I tell the listeners that because it, it is important to do this kind of tax planning because you do not wanna find yourself, you know, where you're like going, I don't know where I'm gonna get that money from,

[00:22:57] **Matthew Nelson:** right? Mm-hmm. Exactly. It's scary.

[00:22:59] **Bill Tucker:** It's scary stuff, you know? I was thinking, does it help? in the kind of situation you're talking about, you are crazy to go at this alone because you know, as we've talked about over the last couple episodes regarding RSUs and equity comp, it can get complicated. Uh, you know, and I think it's really, you know, I was tempted to sit down and think, okay, I looked at my pay, I looked at my pay stubs from last year.

[00:23:23] **Bill Tucker:** I know what my, and my filings, and I know what my es, I know what my effective tax rate is here. Mm-Hmm. But it's, uh, you know, I, I will let people learn from my past mistakes on this. It's better to sit down with somebody and go through it with people who know what they're doing.

[00:23:43] **Matthew Nelson:** Yeah, yeah. At least, at least an accountant that that knows equity comp and has the time to, to do some pre-planning.

[00:23:51] **Matthew Nelson:** But yeah. But probably the. It really, it's just a scale with complexity. You know, like I said, if, if you, if you're single, you know, you're getting like [00:24:00] one tranche of, of RSUs paid out for the year, you kind of know your bonus. Like it's, it's a little easier. You get to two incomes, possible bonuses, multiple tranches, like just as the complexity goes up.

[00:24:12] **Matthew Nelson:** Yeah. It's just worth the effort and the time to, to work with someone who knows how to help with the estimation.

[00:24:19] **Bill Tucker:** Yeah, and do as your producer, let me encourage everybody who's listening do in fact work with a financial professional.

[00:24:30] **Matthew Nelson:** Yes. All right. Let's see. We've got two more to wrap up here. Yeah, we're done.

[00:24:35] **Matthew Nelson:** So. What's next?

[00:24:37] **Jacob LaRue:** I think along the tax, the tax withholding issues, there's, you know, key tax documents that you're gonna need at the end of the year. You know, everybody knows what their W2 is, but, that's where you're gonna find your RSU compensation too. It's gonna be included in your wages, kind of like we've talked about in previous episodes.

[00:24:53] **Jacob LaRue:** So you're definitely gonna need your W2. Verify that that number on your W2 lines up with what you earned plus your RSU income. And then the other big one is, um, your 10 99. Because typically what happens is when you get your RSU vested, that's stock, remember, so it's gonna end up in a brokerage account, and then if you sell it throughout the year.

[00:25:16] **Jacob LaRue:** You're gonna have a new tax form from that brokerage account, and that's a 10 99 that's gonna show your capital gains associated to the stock. and you're gonna need that to file taxes. And, um, there's some other issues here too with wash sales, Matt [00:25:30] and, claiming a loss on your RSU and then buying it back the stock.

[00:25:36] **Jacob LaRue:** So you really need to be careful with just. Tracking when you're selling stock, if you sold it at a loss, and then if you buy it back because it's gonna affect what's called your cost basis. So, you just need to need someone to help you track it. If, you're not gonna track it yourself, you definitely need someone to help.

[00:25:54] **Matthew Nelson:** absolutely. Yeah. And on that last point there, so this kind of in the, the mistake of not properly tracking your tax reporting, um, yeah. That wash sale issue, It may or may not be an issue, but, we see it a lot more as you have more tranches, again, with the complexity. A one-time shot of RSUs paid out, probably not a big deal.

[00:26:12] **Matthew Nelson:** But even there, if you happen to be buying and selling the company stock in your own brokerage account. And then you also get some RSUs paid out and they're, within, close enough timeframe frame of each other. You can cause a wash sale, and that could change the actual amount of gain or loss that you're really technically supposed to be reporting.

[00:26:32] **Matthew Nelson:** And if you have two different companies where that stock resides, your RSUs are at Fidelity, but you have your company brokerage account at Schwab, those don't talk to each other. They're not gonna know you've had this separate activity. The IRS will find out that you actually have a wash sale and that you accidentally claimed a loss that you shouldn't have claimed, and then, uh, you usually don't find out about that or a year and a half or two as the, as your, your taxes go through [00:27:00] the, the IRS system and it comes out the other side and they send you a letter and they say, Hey, um, you know that $10,000 loss, you claimed that, uh, you got to write off two or 3000 on your taxes.

[00:27:10] **Matthew Nelson:** That doesn't count. And you gotta go back and fix it. So it's just something to, you really gotta keep track. Again, the more complexity, the more accounts, the more tranches. The more you really gotta pay attention to this stuff. Yeah.

[00:27:22] **Jacob LaRue:** And I think it's not always true, but if IRS catches something like that, then it just opens the door for them to look at a lot of different other things too, you know?

[00:27:31] **Jacob LaRue:** So last thing you wanna do is like, mislead on your tax return. You want it to be accurate, you don't want other doors to open for the future or anything like that, so.

[00:27:40] **Matthew Nelson:** Yep, exactly. Well, the last one in our, in our Mistakes to avoid is just, yep. Making sure not to lose a grant to an early termination. So, it could be that this is unavoidable, you know, but what, what we're talking about here is just being careful of when you separate from service.

[00:27:56] **Matthew Nelson:** If you were going to separate from service, let's say for presumably a new job opportunity, Understand where the, where the vesting is and understand how much you'd be losing out. So this goes back to being well prepared. Everything, all the dates lined up, all the values estimated so you can look, 'cause sometimes you get a job offer that you don't get a ton of time to, you know, make a decision on, have three, four months.

[00:28:21] **Matthew Nelson:** Um, and so you wanna know. What would be the value if I left my opportunity today for this other other opportunity? How much am I giving up? [00:28:30] And, um, maybe you should ask for that in the new, job offer. so just really understanding that there, there's often a difference when it comes to, say, retirement versus separation.

[00:28:41] **Matthew Nelson:** usually there's some different definitions in whether or not you'd lose those. those grants or those vesting. so just understanding that as well is a pretty big, pretty big item. Sure. Anything else you wanna add, Jacob?

[00:28:52] **Jacob LaRue:** No. Yeah, I think that's, those are some really big mistakes. Um, taxes are obviously the big one that people are gonna be most familiar with because it probably cost them the most money and that's what they feel.

[00:29:02] **Jacob LaRue:** So, but there's, there's other things. I think that last one that you touched on there about retirement and separation of services actually a big deal. And when you're looking for a new job, it, it could be a part of a negotiating, tactic too. So keep that in mind.

[00:29:15] **Matthew Nelson:** Well that was, that was it.

[00:29:17] **Bill Tucker:** Well, that's not it. That's a lot. It's the story. You know, I'm sitting here and I, and I'm gonna ask this question and I think it's probably a dumb question, but it, I was been sitting on the edge of my mind. 'cause it's not clear to me, like when we're talking about RSUs, is that treated. As ordinary income and taxed is ordinary income.

[00:29:38] **Bill Tucker:** it's not a capital gain situation where you've got a lower, you get a lower tax rate on that. I mean, does, so I That's right. It sounds like it falls outside. It sounds like it falls as ordinary income. I, but I, I'm gonna ask anyway.

[00:29:50] **Matthew Nelson:** it does the, the initial vesting, event.

[00:29:55] **Matthew Nelson:** That those units then, um, the value is treated as ordinary [00:30:00] income. Okay. anything past that would turn into a capital asset. So it'd be a gain or loss. Okay. So, and, and it's very common for people to have them vest and they don't sell 'em the same day. Maybe they keep 'em a week or a month or two months.

[00:30:15] **Matthew Nelson:** Mm-Hmm. Anything past that vest period then switches to a gain loss, and that's capital gains rates. It's a good question.

[00:30:21] **Jacob LaRue:** Yeah. I think that's why some people sometimes, you know, think that it gets double taxed because they don't sell 'em right away. Mm-hmm. And then they hold 'em, and now there's a new tax in the form of capital gains.

[00:30:33] **Jacob LaRue:** So Yeah, hopefully

[00:30:36] **Matthew Nelson:** that's right. If you're not paying taxes, you're not doing something right. I mean, that's. I mean, there's true to some extent, you know,

[00:30:45] **Bill Tucker:** to some extent, unfortunately, that is true. As a matter of fact, uh, this is a great, great conversation. I think probably sparked in the minds of some folks listening that they might want to talk to their financial professional or maybe even talk to you, Matt.

[00:30:59] **Bill Tucker:** So how would they reach out and get ahold of you have a conversation with you and your firm about what to do and how to sort it out?

[00:31:06] **Matthew Nelson:** Yeah. Jacob and I. Both love to, give you a second opinion, see if we could help. I mean, the, the, the place to start would be our website at, at perspective six group.com.

[00:31:16] **Matthew Nelson:** It's the number six, so perspective six group.com. we do have, actually, by the time this airs, we've got an article that we'll we'll link to in this, uh, in the show notes. But, uh, restricted stock units, [00:31:30] what are they and how do they work? So that's out on the, on the blog area. You could get a little more information too.

[00:31:35] **Matthew Nelson:** And then you could certainly also call us at at (952) 225-0333. Be happy to, to talk and see if we can help.

[00:31:44] **Bill Tucker:** Great. That's fantastic. Thank you, man. Thank you Jacob as well. Mm-Hmm. Always, always good to have you in the podcast. You add, add a little bit of value to it. Yeah, thanks For those of you who are listening for the first time.

[00:31:56] **Bill Tucker:** This is a terrific podcast. As you can tell, hit the subscribe button. That way you won't miss another episode of it. Okay? Just it'll be delivered to you automatically. You'll stay current with what Matt is talking about, and I would humbly ask that if you liked this podcast, would you rate it, share it with other people, let them know about it, spread the word.

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[00:32:39] **Bill Tucker:** Have a great

[00:32:39] **Bill Tucker:** one.

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