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# RSU & Stock Options Tax Guide: Keep More of Your Equity

Equity compensation creates upside only if you manage the tax event and concentration risk that arrive with it. RSUs are taxed when they vest, NSOs and ISOs create very different exercise decisions, founder shares can make an 83(b) election critical within 30 days, ESPPs often work best when you capture the discount and sell promptly, and a single oversized vest can distort withholding, estimated taxes, and your net worth. This guide shows how to build one repeatable playbook for RSUs, options, founder equity, and ESPPs so every grant is judged by the same standard: after-tax value, liquidity, expiration pressure, and the risk of having too much tied to one employer.

## 1. Foundation

Start with RSUs because they are the most common and the most misunderstood. RSUs are generally taxed as ordinary wage income when they vest, not when you later sell the shares. That income is typically reported on your W-2 and is subject to payroll withholding. When the shares hit your account, your cost basis is generally the fair market value at vest. Sell immediately and there may be little or no additional gain or loss beyond transaction noise. Hold after vest and every future move becomes a separate capital gain or loss decision. That is why the right comparison is not "Should I sell my RSUs?" but "If my company handed me this same dollar amount in cash today, would I use it to buy employer stock right now?" If the answer is no, immediate sale is often the rational default.

Concentration risk matters even when the company feels stable. Salary, bonus, career risk, and sometimes health insurance are already tied to your employer. Letting vested stock accumulate on top of that can create a dangerous correlation between your income and your investment portfolio. A practical policy is to cap employer stock at no more than 10% of investable net worth, and many employees prefer an even tighter 5% cap. The exact number is less important than having a rule before the stock runs up. Without

one, people confuse familiarity with safety and wake up with 25% to 40% of their portfolio in a single name they also depend on for a paycheck. The disciplined move is to treat every new vest or ESPP purchase as a chance to rebalance back to the cap.

Options require a different analysis. NSOs generally trigger ordinary income tax at exercise on the spread between fair market value and strike price, which makes them simpler but more immediately taxable. ISOs can avoid regular income tax at exercise if you meet the holding rules, yet the bargain element may create alternative minimum tax. That creates the classic ISO dilemma: hold long enough for favorable tax treatment and risk AMT plus stock-price decline, or sell sooner and give up the best-case tax result. The answer depends on cash reserves, expiration pressure, confidence in the business, and how much of your wealth is already tied to the company. A good option plan therefore includes a tax model and a position-size limit, not just a hope that the stock will keep rising.

Founder shares and ESPPs add two more specialized rules. If you early-exercise founder shares or other restricted stock when the spread is close to zero, an 83(b) election can move future appreciation out of ordinary income treatment, but only if the election is filed within 30 days of exercise. Miss that deadline and the opportunity is gone. ESPPs work differently: the built-in discount and lookback often create a strong risk-adjusted return even if you sell quickly after purchase. For many employees, the highest-probability use of an ESPP is to capture the discount, sell immediately, and redeploy the cash into a diversified portfolio. Large vest events, option exercises, and ESPP purchases should all feed into quarterly tax planning because broker withholding is frequently too low for high-income employees with multiple equity events.

## **2. Step-by-Step System**

1

**Build one grant map that shows dates, strike prices, and net exposure**

Gather every grant agreement, vesting schedule, expiration date, blackout rule, and brokerage statement into one spreadsheet. For each line item, record grant type, number of shares or options, strike price if relevant, next vest or exercise deadline, and whether the position is liquid. Then add one summary line showing employer stock as a percentage of your investable net worth. That percentage matters more than the raw number of shares because it is the best signal of concentration risk. A grant map turns a vague feeling like "I have a lot of company stock" into a measurable number that can drive actual sale and exercise decisions.

2

**Set a default RSU policy before the next vest hits**

Most employees should decide in advance whether vested RSUs are sold immediately, sold down to a concentration cap, or held only up to a small target percentage. Immediate sale is often the cleanest default because the tax has already been triggered at vest and the shares now represent a fresh buy decision. If you want employer stock exposure, define the maximum percentage you are willing to hold, such as 5% or 10% of investable assets, and force every vest through that rule. This prevents emotional decision-making after earnings calls or during insider-blackout frustration. It also keeps a promotion or large refresh grant from quietly turning your portfolio into a single-stock bet.

3

### **Separate NSO decisions from ISO decisions**

NSOs and ISOs may sit in the same stock account, but they should never be treated as interchangeable. For NSOs, the core question is usually whether exercising now creates a sensible after-tax outcome relative to expiration dates and your belief in the stock. Because the spread is taxed as ordinary income at exercise, many employees pair NSO exercise with an immediate sale or short holding period. ISOs are different because the tax benefit arrives only if you hold long enough to satisfy both the two-years-from-grant and one-year-from-exercise requirements. That potential benefit is real, but it must be weighed against AMT exposure, liquidity risk, and the possibility that a paper gain collapses while the tax problem survives.

4

### **Model AMT and cash needs before any large ISO exercise**

Never exercise a meaningful ISO block without running the AMT numbers. Estimate the bargain element by multiplying the spread per share by the number of shares exercised, then see how that amount affects AMT income. Large December exercises are especially dangerous because there is little time left in the year to react if the stock falls or if you decide a same-year disqualifying sale is necessary. Many employees reduce risk by exercising in smaller tranches, exercising early in the calendar year so they have more time to evaluate a same-year sale, or simply capping the dollar amount of AMT exposure they are willing to accept. Hope is not a tax strategy; a cash reserve and a modeled downside scenario are.

5

### **Use 83(b) elections only when the facts justify them**

An 83(b) election is powerful for founder or very early employee shares when you can exercise at a price close to current fair market value and most of the future upside is still ahead. In that situation, electing within 30 days can lock in little or no current ordinary income and move future appreciation toward capital-gains treatment. But the election is not for RSUs, and it is not helpful if the spread is already large or if forfeiture risk remains high enough that you might walk away from the shares. If you do use an 83(b), treat proof of mailing or filing as mission-critical paperwork. The deadline is unforgiving.

6

### **Plan taxes for ESPP purchases and oversized vest years**

ESPPs often work best when you contribute up to the level your cash flow can support, capture the employer discount and any lookback benefit, and then sell promptly rather than letting concentration compound. For years with large RSU vests, NSO exercises, or ESPP sales, revisit withholding early. Broker and payroll systems often use flat supplemental withholding rates that are too low for high earners. That can mean surprise balances or underpayment penalties even in years when you sold stock. Add estimated tax projections, charitable-giving ideas for appreciated shares where appropriate, and post-vest sale plans to the same quarterly review so the tax side and diversification side stay connected.

## **3. Key Worksheets & Checklists**

These worksheets help you make equity decisions on paper before money and taxes move in real life. Use the planner to summarize each event, the checklist to enforce diversification discipline, and the tax table to keep large vest years from creating avoidable surprises.

## 1. Equity Event Planner

<b>Grant type</b>	RSU, NSO, ISO, founder restricted stock, or ESPP purchase.
<b>Key date</b>	Vest date, purchase date, exercise deadline, or 83(b) deadline that forces action.
<b>Tax trigger</b>	Note whether the event creates ordinary income at vest, ordinary income at exercise, potential AMT, or a capital-gain decision.
<b>Cash required</b>	List strike cost, withholding need, AMT reserve, or estimated-payment reserve.
<b>Current concentration</b>	Employer stock as a percentage of investable net worth before the event.
<b>Target action</b>	Immediate sale, partial sale, hold to a cap, exercise-and-sell, exercise-and-hold, or decline.
<b>Post-event concentration</b>	Employer stock percentage after the planned sale or exercise.
<b>Documents saved</b>	Grant agreement, trade confirmations, payroll records, and broker tax supplements.

## 2. Diversification Checklist

- Calculate employer stock as a percentage of investable net worth before deciding whether to hold any new shares.
- Treat each vested RSU block as if you received cash and had to decide whether to buy employer stock today.
- Write down your employer-stock cap, such as 5% or 10%, before the next vest or ESPP purchase occurs.
- Separate NSO analysis from ISO analysis so AMT risk does not get hidden inside a generic options bucket.
- Run an AMT estimate before any large ISO exercise and note the maximum paper-tax exposure you will accept.
- If using an 83(b) election, calendar the 30-day deadline immediately and save proof of filing.
- Review supplemental withholding on large vest years and estimate whether quarterly tax payments are needed.
- Check blackout windows and expiration dates early so forced decisions do not happen under time pressure.
- Keep equity-sale decisions tied to overall net worth and cash-flow planning, not just recent stock performance.

### 3. Quarterly Tax Planning Table

Quarter	What to Review	Action if High
Q1	Upcoming RSU vests, ISO exercise plans, ESPP enrollment, and projected withholding.	Raise paycheck withholding or schedule estimated payments early.
Q2	Actual vested income versus the original tax projection.	Trim future holds and increase cash reserves if concentration is rising.
Q3	Late-year blackout windows and option expirations.	Decide on exercises before the calendar compresses your choices.
Q4	Year-end AMT exposure, state tax, and whether a same-year sale is needed.	Avoid sleepwalking into a December exercise that creates avoidable tax risk.

### 4. Common Mistakes

### **Thinking RSUs are taxed only when sold**

By the time vested RSUs appear in your brokerage account, the big tax event has usually already happened through wage income. Holding the shares does not defer that vesting tax. It simply creates a new investment decision with capital-gains consequences from that point forward. If you ignore that distinction, you may take concentration risk without even getting a tax benefit for doing so.

### **Letting employer stock drift far above 10% of investable assets**

Employer stock becomes especially dangerous because your human capital and your investment capital are tied to the same company. People often tolerate huge concentrations because the stock rose quickly and selling feels disloyal or premature. A written cap keeps you honest. Without one, success at work can paradoxically make your household balance sheet less resilient.

### **Exercising ISOs without an AMT downside plan**

The best-case ISO story focuses on favorable tax treatment after a full qualifying hold. The worst-case story is exercising a large block, triggering AMT on paper gains, and then watching the stock fall before you can diversify. If you cannot describe how much AMT you might owe and how you would pay it even after a price drop, the exercise size is too large.

### **Missing the 83(b) deadline or assuming it applies to RSUs**

The 83(b) election window is only 30 days, and it is relevant for certain early-exercised restricted stock situations, not for typical RSUs that have not yet been delivered as shares. Confusing the rule or delaying the paperwork turns a strategic tax opportunity into a closed door. This is one of the few equity decisions where mailing proof can be as important as the investment logic.

## **5. Next Steps**

Update your equity spreadsheet before the next vest rather than after it. Write down your employer-stock concentration cap, your default RSU sale policy, the largest ISO AMT exposure you will tolerate, and whether your ESPP strategy is discount capture with immediate sale or something more deliberate. Then compare that plan with your current

withholding and estimated-tax setup so the tax bill is funded before year-end. If you hold founder shares or any early-exercisable stock, add the 83(b) deadline and proof-of-filing location to the same dashboard. Equity compensation becomes much easier when each event is reduced to three decisions: sell or hold, exercise or wait, and how much company exposure is still acceptable after the dust settles.

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