

Restricted Stock Grant

Upon vesting of a restricted stock grant, the value of the vested shares is immediately subject to ordinary income tax, Social Security withholding, and Medicare withholding.

Restricted stock is received through a grant of company stock to an optionee that typically does not have a grant price. The shares are restricted and subject to a vesting schedule, which can be time or performance based.

Upon vesting of a restricted stock grant, the value of the vested shares is immediately subject to ordinary income tax, Social Security withholding, and Medicare withholding. Companies treat the vesting and tax treatment of these shares in a variety of different manners according to their plan documents. Companies can withhold shares for taxes, allow the optionees to sell enough shares to pay for taxes, or allow cash payment.

Example of Withholding Shares for Taxes	
Restricted Shares Vested	1,000
Fair Market Value on Vesting	\$20.00
Tax Withholding	
State	6%
Social Security	6.2%
Medicare	1.45%
TOTAL Withholding	38.65%

This is a hypothetical example and for illustrative purposes only.

Upon vesting, the \$20,000 value is subject to ordinary income. When withholding shares for taxes, the company multiplies the value of the stock by the tax withholding percentage ($\$20,000 \times 38.65\% = \$7,730.00$). That value is divided by the per share Fair Market Value to determine the shares that will be withheld for taxes ($\$7,730.00 / \$20.00 = 387$). Upon vesting the company will deliver to the optionee 613 shares.

There has been an increase in the use of Restricted Stock grants as a method for companies to reward and retain employees. This form of equity compensation has gained popularity with both companies and optionees because it offers value even if the price of the stock drops; this is much unlike the value of stock options, which are considered to be under water should the value drop below the stock option grant price.

This information is intended for educational purposes only. Nothing in this publication shall be construed as providing tax advice. Please contact your tax professional for further information.