2021 · WHAT ISSUES SHOULD I CONSIDER REGARDING MY INCENTIVE STOCK OPTIONS?

THE RETIREMENT PLANNING GROUP

GRANT ISSUES	YES	NO
Do you need help understanding the options granted to you? If so, consider reviewing your employer's stock plan, your grant agreement, and relevant forms used by your employer (e.g., for exercise and misc. elections).	☐	☐
Do you need help determining the tax implications at grant? There are no regular or AMT income tax consequences at grant.	☐	☐
Are you subject to a vesting schedule? If so, consider the following: ■ Monitor the expiration of relevant time periods or the achievement of performance goals that trigger or terminate your exercise rights. ■ Note whether your options have an early exercise feature, and weigh the advantages and risks of exercising prior to vesting.	☐	☐
Will you be subject to clawback provisions?	☐	☐
Do you need to review how termination of your employment (voluntarily or involuntarily), disability, or death might affect your interests under your plan? Be aware of rights tied to your status as an active employee, and be sure to plan around any foreseeable changes. In general, you have up to three months after terminating employment to make a qualifying disposition of shares (assuming the holding periods are met).	☐	☐

EXERCISE ISSUES	YES	NO
Do you need help determining the value of your interests? If so, consider the following: ■ Compare the exercise price and the stock's current FMV to assess whether your options are "in the money" or "underwater." ■ In addition to the potential bargain element and opportunity to share in any future stock appreciation, review the company's dividend policy and any potential tax benefits. ■ Factor in a discount if the underlying shares are not marketable. (continue on next column)	☐	☐

EXERCISE ISSUES (CONTINUED)	YES	NO
Do you need to assess your employer's future equity value and long-term viability? If so, be mindful of becoming overly financially dependent upon your employer (as your sole source of earned income and a potentially large percentage of your net worth).	☐	☐
Do you need to confirm the status of your ISOs? Prior to exercise, consult with your plan administrator to ensure that your options do indeed qualify for ISO tax treatment. Note that if you make an IRC §83(i) election you will lose ISO status.	☐	☐
Do you need help determining the income tax implications of exercising vested options? If so, consider the following: ■ There are no regular tax consequences at exercise. ■ If you dispose of the stock in the same tax year as exercise, there are no AMT consequences. ■ If you hold the stock throughout the tax year of exercise, the bargain element (i.e., the spread between the exercise price and FMV at exercise) is subject to AMT, and is a preference item in the year of exercise.	☐	☐
Are you permitted to early exercise and purchase stock before vesting? If so, consider the following: ■ There are no regular tax consequences at exercise, but AMT will be due on the bargain element (i.e., the spread between the exercise price and FMV at exercise) in the year of vesting. ■ If you make an IRC §83(b) election for AMT purposes within the deadline (filed with the IRS within 30 days of exercise, with notice to your employer), you can accelerate the recognition of AMT to the year of early exercise. ■ Be mindful that no more than $100,000 in share value of options that first become exercisable in any given year can qualify for ISO treatment. This limit is cumulative, so an early exercise feature could run the risk of NQSO treatment by the IRS for excess amounts as options become exercisable. (continue on next page)	☐	☐

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EXERCISE ISSUES (CONTINUED)	YES	NO
Do you lack the funds necessary to do a cash exercise? If so, consider whether there are viable and favorable alternatives, including borrowing, a cashless exercise, or a stock swap. Be aware of the tax consequences of these strategies, which could result in a disqualifying disposition.	☐	☐
Do you want to allow the flexibility to avoid double taxation in the event you may choose to sell within one year of exercise? If you exercise early in the calendar year, you maximize your window to make a disqualifying disposition in the same calendar year, and avoid AMT.	☐	☐

SHARE OWNERSHIP & SALE OF STOCK ISSUES	YES	NO
Does your company require preclearance or have blackout or window periods that might affect your ability to trade your shares?	☐	☐
Do you own unvested shares due to an early exercise? If so, consider the following: ■ You are treated like other shareholders and may receive any dividends, vote (to the extent your shares are voting shares), and request company financials. ■ The shares may be subject to a repurchase right if your employment is terminated prior to vesting. The price is generally the lower of the exercise price or the FMV at repurchase.	☐	☐
Do you need help understanding the tax consequences of the sale of shares acquired through your options? If so, consider the following: ■ A "qualifying disposition" is a sale more than two years after the grant date and more than one year after the date of transfer of the stock upon exercise, and any gain receives favorable long-term capital gains tax treatment on the spread between the exercise price and the stock sale price. (continue on next column)	☐	☐

SHARE OWNERSHIP & SALE OF STOCK ISSUES (CONTINUED)	YES	NO
■ If you sell the shares before meeting both of the above holding periods, this is a "disqualifying distribution," which loses the preferential tax treatment of an ISO. Any gains will be subject to a combination of ordinary income tax and capital gains tax (similar to a nonqualified stock option). ■ For AMT purposes, you may have a negative AMT adjustment at sale, equal to the excess of the AMT basis over your regular tax basis.		
Do you need help tracking your regular tax basis, AMT basis, and your Minimum Tax Credit? If so, refer to Forms W-2, 1099, 3921, 6521, and 8801, as applicable.	☐	☐

MISCELLANEOUS ISSUES	YES	NO
Do you need help evaluating your company stock position, and do you have a plan to mitigate concentration risk?	☐	☐
Is the benefit of waiting to make a qualifying disposition greater than the risk of a price decline while holding shares?	☐	☐
Is there a risk that your company will be acquired within the next two years?	☐	☐
Do you need help factoring in the risks of a stock price decline when considering whether to exercise and/or to make the IRC §83(b) election for AMT purposes?	☐	☐
Do you need to address your options in your estate plan or in a pending divorce?	☐	☐
Do you need to consider any state-specific issues?	☐	☐
Do you have future financial goals that your options could help to achieve? If so, integrate an exercise and sale strategy into your overall plan, in coordination with your income and savings strategies.	☐	☐

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Please contact The Retirement Planning Group for more complete information based on your personal circumstances and to obtain individual investment advice.

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