



Equity Compensation

9 Tips for a Smoother Tax Season



As the tax season approaches each year, it's a good idea for employees, companies and their equity plan administrators to start preparing as soon as possible.

While tax requirements, rates and forms often change year-over-year, this checklist can be helpful in your planning. While this overview can serve as a helpful reference, be sure to stay current on the latest tax changes and consult your own tax experts.





01 Confirm tax rates for the tax year

Focus on specific state and country rates, especially if your company deals with multiple tax rates. Make note of any changes from last year when you submit your import files, and be sure those changes are reflected in your payroll system.

02 Create a task list for year-end requirements

A task list can help keep critical information top of mind and simplify your team's work during this busy time of year. Your list should include:

- **Releases.** Make sure the tax import file has the correct tax year on the release file.
- **Blackouts.** Provide company blackout dates for transactions for the upcoming year. If you don't have all the blackout dates yet, be sure to update the details as soon as they're available.
- **Sarbanes-Oxley Act (SOX) controls.** Verify access/entitlements to data for SOX control purposes. (This may be required quarterly or annually, based on your circumstances.)
- **Demographic updates.** Be sure to send updated information to your provider.
- **Year-end events.** Avoid delays with restricted stock or award vesting or an employee stock purchase plan (ESPP).

03 Review the rules about W-8 forms to ensure compliance

A W-8 tax form is used for individuals and businesses not residing or based in the United States to confirm that they are not a U.S.'s taxpayer.

Important reminders:

- The Internal Revenue Service (IRS) requires both a date of birth (DOB) and a tax ID number to validate the W-8 form. That said, the IRS will consider a previously filed form that only contains a foreign tax ID to be valid until it expires.
- Based on the US's arrangement with specific countries, the IRS gives an option to individuals from Australia, Bermuda, the British Virgin Islands and the Cayman Islands to refuse to provide DOB information.
- A foreign taxpayer identification number is not required for citizens of these four countries.

Reminder: The IRS requires both DOB *and* a tax ID number to validate a W-8 form.

04 Understand how and when different types of equity compensation are taxed

Any of these four types could be in play:

- Restricted stock awards (RSAs) or units (RSUs) are generally taxed on a grant date rather than upon award, with the full market value (FMV) viewed as employee compensation. Likewise, when these are sold, the difference between their cost basis and the proceeds is viewed as a capital gain.
- RSAs or RSUs can also be linked to and triggered by employee performance rather than restricted by time.
- Employee stock purchase plans, or ESPPs, can come in qualified or unqualified varieties, which affect their tax treatment. There are timing concerns in terms of purchase and holding, and capital gains and discounts to account for depending on disposition.
- Traditional stock options, like ESPPs, can be unqualified and bring a number of additional considerations to bear for discount and calculating taxable compensation.

These complexities will likely affect how much a company, its employees or its broker may be involved in the filing process.

05 Verify that you are sending the correct tax forms to the correct recipients

The correct forms are:

- **1099-B for sale of stock:** anyone who is not W-8-certified (generally non-U.S. employees)
- **1099-DIV** for reporting of dividend income and capital gains distributions
- **1099-INT:** for reporting of interest income
- **1042-S for international participants who have dividend income for the year:** anyone who is not W-9-certified
- **3921 for exercise of an Incentive Stock Option (ISO):** anyone who exercises an ISO
- **3922 for transfer of stock through an ESPP:** anyone who transfers ESPP shares



Companies should be sure to emphasize that ultimately it is up to the participant to ensure their filing is correct and properly submitted. Legal disclaimers and reminders are prudent.

06 Clarify supplemental wage withholding rates

An area that generates a lot of questions is supplemental wage withholding. It's up to the employer to specify withholding rates. The minimum rate for supplemental wages under a million dollars is 22%; the maximum rate for wages that exceed \$1 million is 37%. It's important to remember that supplemental wages must be separately identified and mandatory withholding at 37% cannot be overridden by a W-4.

07 Develop an effective communication plan about tax topics

Your stock program participants will receive a lot of information in the first few months of the year — from brokers, transfer agents, employers and tax preparers. They'll need support and guidance to process and understand this abundance of information. To that point, the timing of participant communications is very important. Ideally, you should ramp up this communication drive in middle to late February, once W-2s are out but before many people begin filing.

Simultaneously, employers should add legal disclaimers, and reminders are prudent in this regard. Companies should address frequently asked questions, list key documents as appropriate and provide contacts for key resources like brokers or transfer agents, and the IRS. Employers should also always emphasize that ultimately, it's up to the participant to ensure their filing is correct and properly submitted.



The maximum amount of earnings subject to Social Security tax will increase to

\$176,100

in 2025 (up from \$168,600 in 2024).

The Social Security tax withholding rate will remain at

6.2%

With the new wage cap, the maximum withholding for Social Security will be

\$10,918.20

¹ Source: "[Social Security Announces 2.5% Benefit Increase for 2025](#)," social security Administration, Nov.2024



08 Update reports with accurate data for partners

Once you have gathered all the required information, you should work with your internal partners, such as accounting teams, payroll teams and human resources, to create a list of the reports you ran last year for your business partners. If there are any files to report this year, we strongly recommend keeping all the information, including termination information, up to date in the reports.

09 Connect with available resources

There's certainly a lot to keep track of, but there are many resources available to help you navigate the process. For more information about specific forms, refer to the [IRS Tax Calendar](#).

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EQ specialists can help you better understand and manage your annual tax process needs.

Talk to an EQ specialist today for more information on how they can help with equity compensation during tax season and year-round.

ABOUT EQ

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