NAVIGATING NEW WEALTH WITH CONFIDENCE webinar auto transcript

Hello, and thank you for joining us for this Financial Forum webinar. I'm Daniel Blaustein, a Senior Financial Planning Strategist here at CIBC Private Wealth.

The Financial Forum webinar series is designed to answer financial questions of those who are stepping into or growing their wealth.

Today, we will be focusing on various kinds of liquidity events and the necessary planning considerations for each, And there are a handful. As we go through our conversation today, feel free to ask any questions that you may have by hovering your Cursor over the upper right-hand corner of your screen. A Q&A button will appear.

Click on it, The chat box will then pop up, and you can type in your question there.

Also, there will be the opportunity for you to complete a brief survey after the webinar and we welcome any and all feedback.

Today, we are joined by Bethany Hill, a Financial Planning Strategist at CIBC, as well as Daniel Blaustein, an income tax planning strategist at CIBC, and they will help us navigate the key factors associated with different infusions of wealth that may occur throughout our lives.

While probably morbid, when I think about examples of wealth infusion, my mind initially goes to death.

When a person may come into a sizable amount of liquidity through an inheritance.

Bethany, could you please start by walking us through just the common types of assets that someone could inherit? I'd love to, and thank you for the introduction.

So there's many ways that you can inherit wealth.

And commonly inherited assets include cash, investment portfolios, real estate, businesses, personal property. And each of these types of assets comes with rules for taxes and management.

I'll start with discussing the most common types of portfolio assets that we see that can be inherited.

And so portfolio assets can be considered either taxable assets or retirement assets.

Taxable assets are also known as nonqualified assets, and these are commonly held bank accounts, investment accounts, and are usually under an individual name.

Held jointly, or are held within a trust.

And taxable assets are called nonqualified because they do not meet the IRS rules to qualify for special tax advantages.

Retirement assets, on the other hand, do meet the IRS rules for the special tax advantages. So these are referred to as qualified assets.

And retirement assets can either be pretax or post-tax, and can be held in a variety of different accounts, including individual retirement accounts or IRAs.

Funds held within a traditional or rollover IRA are generally built from pretax dollars.

So in many cases, the assets are from a former retirement plan, like a 401(k) or 403(b) plan.

The investments inside the accounts grow tax-deferred, And then when the account owner takes out money in retirement, The withdrawals are taxed as ordinary income.

Roth IRA assets are post-tax dollars.

Meaning that the funds contributed to the account have already been taxed.

Roth IRAs are unique in that the invested funds grow tax-free, and the account owner does not have to pay taxes when they withdraw the funds.

So these are really great assets to inherit.

Now I'm sorry to interject, but This is where there tends to be some confusion with clients because Tax laws have changed the distribution rules that are with these retirement assets. I mean, the SECURE Act passed a handful of years ago, and so I'm hoping that you can just walk us through some of the changes that have occurred since the SECURE Act passed.

Yeah. So if you inherited an IRA or retirement account after 01/01/2020. There are new mandatory government distribution rules that must be followed.

If you inherit assets from your spouse, you have the most flexibility, and you can roll the funds into your own IRA and treat them as your own.

However, if you inherit assets from a non-spouse, like a parent or a sibling, There are numerous rules that the government established that need to be followed.

Generally speaking, Most non-spouse beneficiaries need to withdraw the balance of their inherited IRA.

Over 10 years.

Okay. That's helpful. And then I also see on your chart There are annuities, and these are classified as nonqualified and qualified, which probably adds a layer of complexity to those. So What what can you teach our audience about those types of assets when they inherit them? So an annuity is a contract, between an individual and an insurance company.

Which converts either a lump sum or a series of contributions from the individual into guaranteed regular stream of income from the insurance company.

And as you mentioned, they could be qualified or non-qualified.

Depending on how the annuity was funded.

And then that determines how the withdrawals must be taken.

So similar to inheriting a retirement account, The rules change based on who you inherit the annuity from.

So a surviving spouse has the most flexibility here, and they can choose spousal continuation which allows them to step into the original account owner's shoes and keep the contract alive.

So they maintain that tax deferral and can delay withdrawals until they reach their own RMDH.

Now if the annuity was inherited from a non-spouse, There are several different payout options depending if the contract is qualified or non-qualified.

And depending on the insurance company.

The main payout options are continuing the non-qualified contract under specific contract terms.

Another option is a lump sum distribution.

So you take out the entire with you take out the entire contract balance all at once.

There's the 5 and 10-year rules.

Which require the entire account balance to be withdrawn and distributed to the new beneficiary no later than December 31 of 2005 or tenth year following the original account owner's death.

And then sometimes if the contract allows, the beneficiary may be able to annuitize So the contract balance is then converted a steady stream of income over either a specific period of time or the beneficiary's lifetime.

Okay. Very good to know. And understanding the different types of assets that you can inherit is important. But, Daniel, Joe, There's obviously going to be different tax ramifications for each type of asset that Bethany outlined. Could you take some time just to explain the tax considerations that our viewers should be aware of? Yeah. That... That'd be no problem.

So as Bethany noted, qualified assets refer to tax-advantaged retirement accounts.

Which include assets like 401(k)s, 403(b)s, and IRAs.

These come in both traditional and Roth flavors.

Distributions from traditional accounts are typically taxed as ordinary income, while Distribution from Roth accounts will be tax-free.

Now the distribution timing is going to be subject to the account's respective distribution rules.

Non-qualified assets are basically everything else.

Since these assets are funded with after-tax money, Only the income and appreciation generated in these accounts are taxable.

Since there are typically no required distributions, you have greater control over the timing of taxable events.

These assets can be taxed as ordinary income, interest dividends, or capital gain depending on the character of the asset.

And one thing to note here is that non-qualified assets are typically subject to base a step up or step down, while qualified assets typically are not.

Very good to know. Okay. So we've talked about the assets that someone can inherit, and we've also discussed the tax implications of those different assets. But, Bethany, going back to you, Could you walk us through the common ways that These assets can be inherited in terms of the vehicle or the wrapper that's surrounding them, whether, you know, beneficiary gets them

outright or maybe they get them inside of a trust. What are the implications there? So if you inherit assets outright, that means that you have direct ownership over the accounts. So in many cases, bank accounts and IRAs are inherited outright, and the beneficiary either transfers the funds to their own account or they become the new account owner.

You can also inherit assets within an irrevocable trust, which means that the assets belong to the trust rather than you personally.

And there are rules for managing and distributing the assets.

The beneficiary of the trust receives the benefit of the assets such as income, housing, principal payouts, but they do not have direct ownership over the accounts or the property.

There's a designated Trustee, which could be you, maybe a family member or a professional or corporate Trustee, that holds and manages the assets according to the strict instructions left by the grantor.

was the person who created the trust.

And when the grantor created the trust, they typically established distribution schedules so that the beneficiary does not get a lump sum of assets immediately.

So these distributions may be staged So portions are given at specific ages, like 25, 30, 35.

Distributions may only be for specific needs, like health education, maintenance, and support, which is often called the HEMS standard.

Standard.

So if I'm thinking about this from the beneficiary viewpoint, it seems like inheriting assets outright would be so nice because you mentioned there are strict guidelines when they're held in the trust.

That kind of scares me. But are there any benefits to receiving assets held within an irrevocable trust? Yeah. There are many benefits, so especially for young beneficiaries, having those preset distribution schedules or the M. standard will often you know, eliminate that urge to spend all the funds at once.

So the thought process is You know, the irrevocable trust and those distribution schedules will help lengthen the amount of time that the assets are distributed and used.

Another great benefit of the trust is creditor and lawsuit protection.

So because the beneficiary does not own or control the assets, You know, in the case that the beneficiary, you know, files for bankruptcy, or there's a lawsuit against them, generally, the lawsuit judgments or creditors cannot reach the assets.

within the irrevocable trust to satisfy those personal debts or legal liabilities.

Yeah. That's really great info. Thank you, Bethany. Again, I assume that depending on the vehicle that our inheritance comes in, There's going to be different tax ramifications. Right, Daniel? So You please walk us through some of the things that beneficiaries who receive assets outright or in trust should consider when they do get these assets.

So when receiving an outright inheritance, I want to make the distinction between income in respect of a decedent or IRD and other inherited assets.

Now IRD consists of income that was earned by the decedent but had not yet been received at the time of death.

Some taxable examples of this include traditional 401s or IRAs, deferred compensation, and certain annuity or payment rights.

These assets, as mentioned before, generally do not receive a step-up in basis and are typically taxed as ordinary income when they're distributed to the beneficiary.

Other inherited assets, by contrast, can cover a wide range.

Some common examples here include investment securities, real property, and good old cash.

The character of the income will depend on the specific asset, as they can generate ordinary income, interest, dividends, or capital gains.

Now if the beneficiary sells the asset, The gain or loss is generally treated as long-term regardless of their actual holding period.

Now moving over to trusts. When assets are inherited in an irrevocable trust, It's important to understand the tax interplay between the trust and the beneficiary.

For income tax purposes, the three main categories to keep in mind are grantor trusts, simple trusts, and complex trusts.

In a grantor trust, the income is generally taxed to the person treated as the owner for income tax purposes, who rather than to the beneficiary.

Quite often, this will be the grantor.

Grantor trusts can be advantageous because the income tax generally paid outside of the trust, allowing the assets inside to remain intact and continue to grow for the benefit of the beneficiaries.

With a simple trust, The trust is generally required to distribute all of its accounting income currently each year and that income generally retains its character as it is distributed to the beneficiary who will ultimately pay the tax for it.

Capital gains, on the other hand, are typically taxed only to the trust.

This reflects the traditional trust law distinction between income and principal.

Trust income consists of earnings generated by the trust such as interest, dividends, or rent, while trust principal consists of the original assets or property held in the trust.

Now the key difference between a complex trust and a simple trust is that a complex trust is not required to distribute all of its accounting income currently.

Instead, it can accumulate income and if authorized by the trust terms, actually make distributions of principal or even distributions to charity.

This is often going to be at the trustee's discretion.

Now the income distributed to a beneficiary is going to generally be taxable to that beneficiary while the undistributed income and the capital gains are going to stay taxable to the trust.

Now, one of the things that separates these trusts is simple and complex trusts are generally taxed as separate taxpayers and can continue in that capacity after the grantor's death.

Whereas a grantor trust really cannot.

Another key consideration with these non-grantor trusts is that they hit the top 37% federal income tax bracket, at a relatively low level of income.

Currently around $16,000. So retaining income in these types of trusts can become tax inefficient.

really quickly.

That is really interesting stuff.

I'm fascinated to hear about all these different types of inheritance considerations, but I'm actually gonna pivot away from inheritance and discuss another situation where people can come into a great deal of liquidity, and that's when they decide to sell real estate.

It's their primary home or vacation home, income property, So, Daniel, I'd like to stick with you to discuss what are the different tax implications that someone who is selling real estate should keep in mind.

Right.

So for individuals, there are three types of homes or real property to be concerned with, and that's personal use, rental and investment property.

Now real property held for personal use is just that.

A place that the owner uses personally.

This could be a primary residence, a second home or a vacation home.

Now you can realize capital gain when selling personal use property, but never capital loss.

On the other hand, A notable benefit of selling your primary residence is that you can exclude up to $250,000 of gain if you're single or married filing separately, up to $500,000 of gain if you are married filing jointly as long as you've lived there for at least two out of the last five years.

Rental property is meant to be income-producing.

A bona fide rental property can deduct operating expenses such as repairs and depreciation against its rental income.

Now when a rental property is sold, it can also receive special tax treatment under Section 1231. Under 1231, gain is going to be considered capital gain but loss is going to be considered ordinary loss.

This is beneficial because ordinary loss is typically more versatile than capital loss can offset virtually any type of income.

Now one bugaboo to be wary of here, however, is depreciation recapture.

Which requires you to treat some of that 1231 capital gain as ordinary income until you've recaptured all of the depreciation you have taken over the years on that rental property? Now the third category, investment property, is real property that was purchased but not used personally or as a rental.

The basic idea here is simply to benefit from the appreciation in value.

12:31 doesn't really apply here, So a sale of an investment property will typically result a traditional capital gain or loss.

So first off, I've got to say anytime you can slip the word Welcome to a financial webinar, unbelievable. But, also, there is some confusion around this gain sale exclusion that you were discussing. A lot of clients tend to believe that in order to get that tax-free treatment of those proceeds, they have to then roll those proceeds into the purchase of another property. So I'm

hoping you can just take some time to explain what that concept is because I don't think it applies to what you were talking about before because as long as you satisfy the two out of the last five years as your primary residence logic. But can you take some time to talk through that? Right. So it's important to distinguish between those two ideas. They're completely different.

This idea of rolling gain into another real estate purchase typically refers to what is called a 1031 or like-kind exchange.

And this really only applies to rental or investment properties.

The basic idea is to defer the gain that you would otherwise have to recognize when selling a property by rolling it into a replacement property.

And that's kind of a high-level explanation, and the rules surrounding 1031 exchanges are complex. So you'll want to speak with an advisor and with what is called qualified intermediary before diving in.

Now, while we're on the subject of real property, I wanted to mention that incidental personal use is allowed with rental and investment properties.

The IRS defines this as the greater of 14 days or 10% of the days that the property was rented out.

This means that a rental property or an investment property can stay classified as a rental or an investment property as long as you don't exceed that personal use threshold.

And another interesting thing on the flip side here is that you may rent out your primary or secondary residence for up to 14 days without having to recognize rental income. This has commonly come to be known as the August rule.

Well, maybe this is my Georgia bias, but Does that have anything to do with the Masters Golf Tournament that's held in Augusta? Yeah. The nickname actually does originate from Augusta, Georgia.

There where people have traditionally rented out their homes during the Masters Golf Tournament.

During the tournament, some of those homes were rented out for some truly eye-popping amounts. I've heard some of the luxury homes going for as high as $25,000 per night.

Wow.

If I can hop in, another thing just to consider when you have newfound liquidity, is that you need to start with a plan before you make any financial moves.

And as a Financial Planner, I love having a plan.

So before you spend or invest a single dollar, you should place the funds in a low-risk savings account or a money market fund.

Because this allows you to keep the funds liquid and safe while earning a little bit of interest.

It also removes that emotional urgency to spend and gives you the time to build a plan.

So as Daniel mentioned, one of the first things to account for is taxes.

So if the liquidity is from a taxable event, like a property sale, you should work with your CPA or tax professional to calculate and set aside your estimated tax liabilities so that you don't fall up short at tax time.

The next step is to fund or top off your emergency fund.

So that you have three to six months of funds that can cover all of your needs in case an emergency were to happen.

Eliminating bad debt like outstanding credit card balances or loans with really high interest rates, is the next step. And if you're working, Now would be the time to review the contribution amounts to your workplace for retirement plan so that you're making the maximum contributions.

And this will help also shield your income from inheritance heavier taxation if you're making those pretax contributions.

With the rest of the funds, I always recommend allocating a small amount, like 5% or 10% towards immediate personal enjoyment.

So take that trip that's on your bucket list, or make a guilt-free purchase, and then invest the rest.

So talk to your Financial Advisor or Relationship Manager about the different ways to invest the remaining cash based on your financial goals, your risk tolerance, the time horizon for meeting the funds later on.

So, obviously, my ears really perked up When you said make that guilt-free purchase, I think that's the most fun.

of the list that you provided, but, obviously, we need to be cognizant of each of those other ones to maintain and grow our wealth over time. And it's Kinda funny because it reminds me of a couple of lottery winners that have become clients.

And, you know, there's so many horror stories about lottery winners ultimately going bankrupt because they aren't really sure how to manage newfound liquidity. But for any of the viewers

who may be fortunate enough to win the lottery in the future, I know that there are a couple of different options to receive those lottery winnings either in a lump sum payment or in the form of an annuity.

Daniel and Joe, could you walk us through the different considerations of maybe which of those choices is best, or does it depend on the situation? What are your thoughts there? Yes. So, Daniel, if you happen to win the lottery I would advise you not to rush the decision between the lump sum payment or the annuity.

Take the time to consider what you and your family's income needs are going to be going forward.

Then understand that if you take the lump sum, The cash value will typically be less than the advertised jackpot probably going to be subject to the highest federal tax rate of 37%.

Now, although a few states don't tax lottery winnings, It's prudent to assume that you're going to be subject to the highest state tax rate too.

Now the advantages of taking the lump sum are that the monetary value of your winnings as well as the tax liability are going to be locked in.

But speaking on a purely non-tax note, Sometimes having all that money immediately accessible may not be ideal.

If you decide to go with the annuity payments, you will typically receive the full advertised jackpot but it will be paid out over the course of 20 to 30 years.

Although this results in less tax on the front end, You might actually be subject to the highest federal and state tax rates every year over the life of the annuity.

Additionally, inflation will erode the purchasing power of your money over time, There is no telling how tax rates will change in the future.

You may be dealing with significantly higher or perhaps even lower tax rates over the life of the annuity payments. There's just no way to know.

All that being said, There is no single right answer here.

The choice really needs to boil down to what is best for you and the goals that matter to you.

I mean, that makes total sense. And while it can be very fun, to imagine winning the lottery, I think we can all agree that The odds of that happening aren't really in our favor.

But sometimes we're fortunate enough at work. Maybe our employers give us these big year-end bonuses. So we get an infusion of cash you know, once a year at the end or maybe we work on a commission-based system where we are receiving a chunkier income along the way. And so, Bethany, I wonder if there are any best practices when trying to manage these more variable income streams instead of just a consistent salary.

There's lots to consider.

So Variable pay comes in a lot of different ways, as you mentioned.

Commissions, There's bonuses, Maybe you worked strictly on freelance gigs or seasonal payouts.

And so this type of income requires a system that's built on reserves instead of a traditional monthly budget. So first thing you need to do is establish your baseline living expenses.

So before you can manage the money that's coming in, you need to know what must go out each month towards your needs and your wants.

So your needs are your essential living expenses, that goes toward rent or mortgage payments, utilities, insurance, minimum debt payments, basic groceries, while you're wants is more of your flexible discretionary spending.

You know, towards fun things like dining out, entertainment, subscriptions, travel, So if you have 1099 freelance work, You need to be mindful that the money that's coming in hitting your bank account is not all yours.

So your CPA or tax professional can give you better guidance based on your unique tax situation.

But, typically, we recommend transferring 25 to 30% of every payment you receive into a separate tax savings account.

And this tax savings account is never looked at as part of your accessible cash flow.

daily spending needs because it's earmarked for upcoming tax payments.

Funding your emergency fund is the next step.

So you have three to six months of cash that could cover all of your needs.

And then if you work on commissions, freelance gigs, or seasonal payouts, We recommend that in addition to your emergency fund, you have enough cash at the bank to cover next month's essential living expenses.

Once you've saved enough funds towards taxes and you feel comfortable with your emergency fund in meeting upcoming essential living expenses, we recommend allocating the rest toward future goals and your current lifestyle spending.

So consider allocating 20 to 30% toward long-term investments in retirement.

Or aggressively paying off debt.

And enjoy the remainder, whether that's your discretionary monthly spending or toward a big annual vacation.

One thing to be mindful of is that the big issue trap of variable income is lifestyle creep.

And that's the gradual tendency to increase your spending during your peak income periods.

So when you're consistently getting big bonuses and commissions, it's easier to want to rent a pricier nicer apartment or go out to eat more frequently or just buy more expensive things.

But keeping your essential living expenses as low as possible helps when a commission is missed or a bonus is cut in half. The freelance gigs just aren't as available as they used to be.

Do you want to chat about some of the withholding considerations for this You know, variable pay? Yeah. I'd be happy to.

So withholding can be simple.

And straightforward if you're someone who holds a single job and you filled out your W-4 withholding certificate correctly.

However, if you have a working spouse, you hold multiple jobs or receive significant bonuses or equity compensation, your withholding may not cover your actual tax liability.

As an example, federal withholding for supplemental income such as bonuses and equity compensation is 22% for amounts up to $1,000,000 So let's say you receive a bonus of $1M.

Your employer may withhold $220,000 of income tax on that bonus but the tax you might actually owe could be as high as $370,000.

In this case, withholding falls short.

Additionally, withholding is unlikely to be sufficient to cover income from investments, rentals, and other non-wage income.

May also be subject to self-employment taxes in the case of 1099 or gig work.

In these instances, estimated tax payments would be required, which are due quarterly.

And we could spend all day talking about the ins and outs of estimated taxes, but suffice to say, if this sounds like you, You should speak with your CPA or financial advisor to confirm.

And while it does sound riveting to talk about estimated taxes all day, I actually want to Again, pivot a little bit to talk about the types of income that don't come as cash. I mean, there are plenty of our clients that get compensation in the form of stock awards. And there are various different types of stock awards, and each one has its own unique tax implication or rule to follow. And so, Bethany, could you walk us through some of the different types of stock grants that people can receive? Yeah. I'd love to.

And as you mentioned, there are many types of equity compensation. So we'll just cover of the most common types.

And I'll discuss them, you know, at a high level. And Daniel, if you wanna chime in and talk about the tax ramifications of each.

Great.

So you can see here at the top left of the screen There's restricted stock units.

Also known as RSUs, and then performance stock units.

Which are abbreviated as PSUs. And these are taxed very similarly. However, employers promise to give employees shares of the company that's company stock at some point in the future.

And at the time of the grant, the employee does not own the shares and the units have no cash value.

So for restricted stock units or RSUs, to receive the shares, the employee must meet specific conditions, like staying with the company certain numbers of years or very occasionally hitting performance goals.

And there's a vesting schedule that outlines when RSUs convert into an actual share of company stock that the employee can either keep or sell.

Performance stock units, on the other hand, are commonly granted to company executives, and these are tied to performance-based metrics.

So the shares only vest when the company or the employee hits specific performance goals.

Such as revenue growth or earnings per share, combined with staying at the company a certain amount of time.

So PSUs are a higher risk employees than RSUs because if the misses its target goals, the employees may not receive any shares.

PSUs are really used to motivate specific business outcomes, and they align the employee interest with the shareholders.

Now RSUs and PSUs are going to be taxed ordinary income when they vest.

And are going to be subject to income and payroll tax withholding just like wages.

And like wages, this income will show up on your W-2. Now, RSUs and PSUs are sometimes settled in cash rather than a transfer of shares.

This doesn't change how they're taxed.

And then there's restricted stock awards.

Also known as RSAs, which is a type of equity compensation where actual shares of company stock directly to an employee or a service provider, on the grant date.

So unlike RSUs and PSUs, which are a promise to deliver the stock later under specific conditions, RSUs allow the employee to be the legal owner of the shares starting on day one. Some companies award RSAs at no cost to employees, while other companies require employees to buy the shares at a low set price.

or the fair market value when they're granted.

So even though employees own these types of shares upfront, they are restricted because they remain subject to a vest schedule.

So if the employee leaves the company before the shares vest, the employee must forfeit the unvested shares back to the company.

A restricted stock awards I want to reiterate are distinct from restricted stock units, are going to be taxed as ordinary income when they vest.

And are also subject to income and payroll tax withholding.

Now RSAs are going to be settled with actual shares of stock, you're gonna have certain rights to them during the restriction period.

For example, if the stock pays dividends before the award vests, Those dividends are typically paid to you and treated like wage income.

Now toward the bottom of the screen, You see that there's also employee stock options.

ESOPs, and employee stock purchase plans, ESPPs.

And these are ways companies give employees a stake in the business they work through different mechanics, cost, and there's of course, different tax rules.

Looking at employee stock options, these give the employee the right to buy a set number of shares of company stock at a fixed price.

Which is called the strike price or the exercise price.

After the vesting period.

There's two primary types of ESOs incentive stock options called ISOs, and non-qualified stock options, which be abbreviated to NSOs or NQSOs.

Looking at incentive stock options first.

This is the type of option that's exclusively for employees.

So ISOs are not available to contractors or board members.

ISOs give the employees the right to purchase company shares at that fixed strike or exercise price some point in the future.

Unlike the other types of equity compensation that we've discussed that we talked about so far, ISOs are typically taxed when the stock is sold.

Not at vest or at exercise.

In a case where you're subject to the alternative minimum tax, you may have a taxable event in your ISO VEST, but that's really the only exception.

The character of the taxation when you sell the stock hinges on this idea of what is called a qualifying disposition or a disqualifying disposition.

Now, a qualifying disposition is when you hold the stock for at least two years after you are granted the option at least one year after you exercise.

The difference between the exercise price and the sale price commonly known as the spread be characterized as capital gain.

However, if you sell the stock before meeting either of those two holding then it would be considered a disqualifying disposition.

And the spread will be characterized as ordinary income.

In either case, ISOs are not subject to income or payroll tax withholding, but may increase your income tax liability if you sell it for a gain.

Now, unlike incentive stock options, nonqualified stock options are available to employees, independent contractors, consultants, and board members.

Similar, incentive stock options, Nonqualified stock options give someone the right but not the obligation to purchase the company shares at the fixed strike or exercise price at some point in the future.

Non-qualified stock options going to be taxed when you exercise the option.

The income or spread here will be the difference between the strike price and the fair market value of the stock on the date of exercise.

Spread is going to be considered ordinary income and again, to income and payroll tax withholding and should be reported on your W-2. The fair market value on the date of exercise then becomes your base in the stock with the future sale resulting in capital gain or loss.

If your non-qualified stock options are subject to a vesting period, There is no taxable event on the date of vest.

And the last type we'll cover are ESPPs, or employee stock purchase plans.

And this is when employees can purchase company stock at a discounted price through payroll withdrawals.

So companies that offer ESPPs are primarily publicly traded companies, and the employees voluntarily choose if they would like to participate.

If they do participate, the program allows employee to buy company stock at a discounted price up to 15%.

Now stock acquired through an ESPP isn't going to be subject to income or payroll tax withholding.

The ESPP stock is going to be taxed when it is sold, but with a bit of a quirk.

If the stock is sold at a gain, The portion that's attributable to the employee's discount is treated as ordinary income.

Then the rest of the gain is treated as capital gain.

So in a sense, there are two levels of basis that you have to keep track of if you acquire stock through an ESPP.

I mean, this is Such great information. There were so many acronyms that you were throwing my way, ESPP, RSU, NQSO. I feel like Y'all just stuffed me full of alphabet soup, but if you are fortunate enough to receive these kinds of stock grants, then It's going to be very important for you to understand not only how they impact your tax picture, but also just your overall wealth plan.

And we've had a good bit of questions roll in from our audience, and honestly, there were a decent amount that related to the sale of a business.

And we did not address that topic because The next Wealth Planning Illuminated hosted by Theresa Marx is going to be covering that very topic. So if you're interested, stay on the lookout for that invitation. But given the Time, I'm just going to grab a couple of these questions.

So The first one, Daniel, this one seems like a good one for you because it's related to income tax.

This person says, I've heard that for my restricted stock, An 83(b) election can save me on income tax.

Is that true, and how does it work? Okay. So in 83B election, is only going to apply to a restricted stock award.

If you recall, An RSU is taxed when it vests and is considered ordinary income.

In 1983, if filed properly, which means within 30 days of the RSA grant, means that you're electing to recognize the ordinary income immediately based on the fair market value on the date of the grant.

Now the upside here is that any appreciation from that point is going to be as capital gain.

This is ideal if you're sure that you're going to meet the vesting requirements the current fair market value is really low, and you believe that the stock is going to have a higher fair market value in the future.

Now the downside here is that you are electing to recognize income and pay tax on stock that you don't own yet and may never own if you fail to meet the vesting requirements.

Additionally, if the stock's price when it vests is lower than the fair market value when it was granted, then you've unnecessarily paid too much tax.

Okay. Very interesting. And then the last question Bethany, this seems like a good one for you.

This person simply just says, What are strategies for managing my RSUs? And that's a really good question because we have a lot of clients that have restricted stock granted to them from their company. And so there's you know, a handful of different ways that you could manage these. A lot of times, We recommend people, you know, hold some of the shares what you want to avoid is building up concentration risk.

So once you feel comfortable with the number of shares, you know, held in your investment account, We then recommend considering selling the shares immediately after vesting or using some type of systematic schedule. So, you know, like, once a month, or once every two months, and then taking the proceeds from the RSUs and reinvesting them in a diversified way.

Really help manage that concentration risk.

If you hold highly appreciated vested shares, one thing that you could do if you're charitably inclined is donating them.

directly to charity or a donor-advised fund if you have one, and that allows you to avoid paying capital gains on the appreciation. And you could also possibly receive different tax benefits.

Really good insights, and Bethany, Daniel, This was such an informative discussion today. Thank you both.

So much for taking the time to share your thoughts and expertise with us.

And I also want to thank all of our viewers for tuning in today and asking some really good questions along the way. Hopefully, you found this webinar beneficial, but if there are any questions that you have, if We didn't address your question, then you can always reach out to your CIBC Advisor.

Finally, just as a friendly reminder, please complete the brief survey at the end just to help us tailor future webinars around topics that you are most interested in. Thanks again, and I hope you all have a wonderful day.