Snapshots™

LEAVING A JOB:
EMPLOYER STOCK OPTIONS

IF YOU WERE A MEMBER OF YOUR COMPANY'S STOCK OPTION PLAN, YOU WILL NEED TO MAKE SOME DECISIONS ABOUT YOUR OPTIONS WHEN YOU LEAVE.

Generally, under the terms of the plan you will be required to exercise your options within a specified time of your departure, perhaps 60 days. It is important to understand how this can be done to avoid adverse tax implications.

Exercising the Options

If your options are 'in the money' or the current price of the shares is higher than the contractual price at which you can buy them, then you will want to exercise the options, buying the stock at the lower price, and defer any immediate tax if possible. Current tax law allows you to defer any gain earned until the time you actually sell the shares, provided the following conditions are met:

- An election is made to defer the gain
- The market price of the shares at the time the options were granted was not greater than the options or exercise price

There are some additional considerations if the shares are of private company rather than a public company (listed on a stock exchange). The tax deferral available upon exercise is 'capped' at $100,000 of the exercise amount for public shares.

Selling the Shares

While you can defer the gain on the shares, when you eventually sell your shares, there will be tax implications if they have increased in value. When you sell the shares, the difference between the market price received at the time of exercise and the cost or exercise price will have to be included in taxable income. However, an offsetting deduction of 50% of that amount will be allowed. This means that the gain receives the same tax treatment as a capital gain. The difference between the Fair Market Value at the time of the sale and the exercise price will be treated as a capital gain (or loss).

Speak to me and your former employer to learn the details of your stock option plan and how you should proceed when you leave.