

Title A: Amazon Employees: Tax Implications of Restricted Stock Units (RSUs)

Subtitle A: Exploring RSUs as part of your corporate benefits and how they impact your wealth.

Title B: Restricted Stock Units: Understanding the Tax Implications and How to Avoid Them

Subtitle B: An overview of RSUs as part of your Amazon corporate benefits and how they affect your investment strategy.

Title C: An Overview of Amazon Benefits: Are Restricted Stock Units (RSUs) a Good Investment Opportunity?

Subtitle C: Exploring the benefits and tax implications of RSUs and their role in your wealth-building strategy.



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Part of Amazon’s corporate benefits package includes Restricted Stock Units (RSUs) to help employees

diversify their investments. RSUs are not the same as stock options or restricted stock, however, and employees need to understand the differences, particularly pertaining to taxes.

Let's take a closer look at what Restricted Stock Units are, how they differ from stock options, and how you can use this piece of your Amazon benefits to its highest potential.

What Are Restricted Stock Units?

Restricted Stock Units are one way an employer can give employees shares of the company. Unlike traditional stock options, RSUs are always worth something, even if the stock price drops.

Employees receive RSUs through a vesting plan and distribution schedule after either meeting certain performance milestones or having been with the company a certain length of time. The stock has no value until the vesting period is complete.

Let's use a fictitious example to see what this looks like:

Let's say you receive 100 RSUs to be distributed over four years (25 shares each year). Each share is worth \$100, so the total value is roughly \$10,000. After the first year, you have 25 vested shares, then 25 more shares the next year, and so on.

When the shares are vested, the stock is considered income, and the employee must pay taxes on that stock. Amazon will withhold a portion of the shares to pay those taxes, similar to how you pay taxes every payday. Also, once your shares are vested, you have the option of hanging on to them or selling them at your discretion.

Making Sense of RSU Tax Implications



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It's vital to remember that RSUs are taxed at vesting; NOT at exercise. This is a common misconception because stock options are taxed only when they are exercised, and this difference catches many people by surprise.

Amazon's RSUs vest at 5%, 15%, 40%, 40% – not the typical 25, 25, 25, 25 that most companies follow. This often catches Amazon employees off guard because of the tax consequences at years three and four.

RSU vests are considered Supplemental Wages and are typically withheld by corporations at 22%, which may not be enough if the dollar amount is sizable. If this is the case, you could be paying more at tax time than you were expecting.

Once your shares have vested, you're free to hold onto them or sell them. When you eventually sell, you will pay capital gains tax on the difference between the sale price and vest price. If you hold onto the RSUs for more than one year after you receive the shares, the proceeds from the sales will be subject to the long-term capital gains rate.

For example, let's say you receive 4,000 RSUs with a vesting rate of 25% per year and a market price of \$20.

At vesting in the first year, the market price is \$23, which translates into \$23,000 of income. The price at vesting in the second year is \$25 (\$25,000 of income), \$27 in the third year (\$27,000 of income), and \$30 in the fourth year (\$30,000). This is a total of \$105,000 of income, and each year's income is taxable on its vesting date when the employee receives the shares.

Now let's say you sell two years after you receive the last of your shares, and the market price is \$50 (or \$200,000 for 4,000 shares). Your capital gain is \$95,000 (\$200,000 in current value minus \$105,000 earned income) and will need to be reported on Form 8949 and Schedule D.

How to Maximize Amazon RSUs



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The Amazon Corporate Benefits package is lucrative in many regards, but you can maximize your position with Amazon stock with a little knowledge and attention.

We recommend Amazon employees sell and diversify their RSUs upon vest so they are not as dependent on the company (i.e., dependent on both paycheck and portfolio value) and their monthly cash flow can cover their expenses.

As for how much stake you should keep in the company by age, there is no ideal age-based target. On a practical level, you should be fine with 5% of your net worth tied up in company stock and can maintain this allocation if all of your other goals are being met.

In many cases, we've seen clients that have 50% of their net worth in employer stock, at which point we recommend cutting it to 20% quickly with the goal of working toward the 5% position over time.

[Schedule a consultation](#) with one of our financial counselors to understand the full costs and benefits of Amazon RSUs so you can avoid tax surprises and keep a healthy amount of employer stock in your wealth strategy.

Resources:

<https://www.investopedia.com/terms/r/restricted-stock-unit.asp>

https://www.schwab.com/public/eac/resources/articles/rsu_facts.html

<https://www.cnbc.com/2015/07/20/how-to-avoid-the-tax-traps-of-restricted-stock-units.html>

<https://www.capshare.com/blog/rsus-vs-options/>

<https://www.xandyadvisors.com/blog/6-things-you-need-to-know-about-your-restricted-stock-units-rsu>

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