An Employee's Guide To Restricted Stock Units (RSUs)

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To attract and retain talent, many companies incentivise their employees and potential recruits with restricted stock units (RSUs).

RSUs are a type of compensation in which a company transfers shares to an employee, and they can be a great way for people to build wealth. This became particularly apparent over the pandemic which saw the share price of many big companies such as Tesla, Google and Amazon soar, resulting in a significant increase in the net worth of their employees.

However, it is important to understand how RSUs will affect your financial planning as one wrong decision could result in unforeseen tax liabilities or loss in stock value.

This article aims to help people who have been awarded RSUs:

a) Gain a better understanding of how RSUs work
b) Highlight the tax implications
c) Provide key considerations to manage RSUs effectively

1 How do RSUs work?

Companies typically award RSUs to an employee at the point of joining a company or as part of a bonus package. Once RSUs are granted, you will not be able to sell these shares right away. Instead, they are likely to follow a **vesting schedule** which dictates when you can sell your shares according to a certain time period or company performance. The structure of the vesting schedule will vary by company.

2 How are RSUs taxed?

In the UK, you only pay tax on RSUs when they vest and not when they are initially granted. You will have to pay **income tax** and **national insurance** on the value of the vested shares within that tax year at your marginal rate. Luckily, most employers will deal with this under PAYE so there is nothing you need to do at this point.

When it comes to selling your RSU's however, things aren't so simple. You may have a **taxable gain** if the share price has increased since the point at which they were awarded. If this taxable gain exceeds your **available annual exemption** (currently £12,300)* then there will be tax to pay on the gain. The HMRC rules on this are complicated so it is best to consult an accountant before selling RSUs.

3 How can I reduce tax on RSUs?

You can reduce how much income tax you pay on RSUs by paying into a pension. Paying into a pension reduces your 'adjusted net income' for tax purposes and therefore you will have a lower amount of income tax to pay. Pensions are a complex area of legislation and the amount of your annual allowance is dictated by your own personal position.

To minimise the capital gains tax, you can sell the shares immediately upon vesting to ensure that there is no taxable gain. Furthermore, you could then buy them back in a stocks and shares ISA* to ensure that any future growth is tax-free. Alternatively, if you're married you can transfer some of your shares to your spouse (free of inheritance tax) and your spouse can then sell the shares, making use of their capital gains tax allowance.

4 Key considerations

As seen is this article, there are many factors to consider if you're awarded RSUs. From understanding your individual company RSU policy, to considering the impact on your taxable income – make sure you fully research the implications and consult with an Accountant and Financial Adviser to ensure you're making the right decisions.

Please note that none of the above should constitute financial advice

Please note, pensions and stocks and shares ISAs are a complex area of legislation and you should seek financial advice to help understand what is suitable for you.

*The levels and bases of taxation and reliefs from taxation can change at any time. Tax reliefs are dependent on individual circumstances.

*The value of the investment will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.