AUSTIN CREEK CAPITAL

The RSU Tax *Planning* Guide

How to read your withholding gap, and keep an RSU vest from turning into an April surprise.

If you are paid in restricted stock, the most expensive misunderstanding is a quiet one: that the tax was handled because some shares were withheld at vest. Often it was not, at least not fully. This guide explains why, and what to do about it.

RSUs are *pay*, not a bonus

When your RSUs vest, the full value of those shares is income, taxed as ordinary income, in that year, at your marginal rate. It is the same tax treatment as salary. The only difference is that you were paid in stock instead of cash. That framing matters, because it sets the expectation correctly: a large vest is a large slice of taxable income arriving all at once.

Why your withholding falls *short*

Most employers withhold federal tax on RSUs at the **22% supplemental wage rate**. That is the default, and for a senior tech earner it is usually too low. Once your total income climbs, your real marginal rate is often **32 to 37 percent federal**, before California adds its share. The shares withheld at 22% simply do not cover what is actually owed, and the difference does not disappear. It shows up the following April.

> ***~$40,000 to $45,000***
>
> TYPICAL UNDER-WITHHOLDING GAP WE MODEL ON A $350,000 VEST ATOP A $225,000 SALARY, SINGLE FILER, CALIFORNIA

That gap is not a penalty or a mistake. It is the predictable result of withholding at 22% against a marginal rate well above it. The good news is that because it is predictable, it is plannable. You can know the number before it is due.

Two wrinkles worth *knowing*

Social Security. There is an annual wage cap on the 6.2% Social Security tax. Most high earners hit that cap on salary alone, which means an RSU vest often carries little or no additional Social Security tax. That is one piece working in your favor.

Additional Medicare. Working the other way, a 0.9% Additional Medicare surtax applies to wages above $200,000 for single filers and $250,000 for married filing jointly. A sizable vest usually pushes you over those thresholds, adding a small but real layer on top.

If you also hold *ISOs*

RSUs and incentive stock options are taxed on entirely different tracks, and the one to respect is the Alternative Minimum Tax. Exercising and holding ISOs can create an AMT liability on paper gains, even in a year you sell nothing. If you have both RSUs vesting and ISOs you are weighing, the two decisions interact, and that interaction is worth modeling before you act, not after.

Your year-end *checklist*

- **Run a projection by mid-year, not in April.** The time to find the gap is while you can still act on it, which means June or July, not the week before filing.
- **Set the gap aside in cash as shares vest.** Treat the under-withheld amount as already spoken for. It is the IRS's money, not yours.
- **Consider quarterly estimated payments.** A large gap can trigger underpayment penalties. Paying estimates through the year can avoid them.
- **Decide hold versus sell deliberately.** Holding vested shares is the same decision as buying that stock today with cash. Make it on purpose, not by default.
- **Bring the numbers to your CPA.** Most preparers file returns; far fewer do forward-looking projection. Arrive with the figures and the questions.

Want your own number? Estimate your withholding gap in two minutes, then let's talk through what it means for your year.

Book a 20-minute call

Run the RSU estimator
