TAX TREATMENT OF STOCK OPTIONS

UNITED STATES

	EMPLOYEE	EMPLOYER
GRANT DATE	No tax consequences.	No tax consequences.
VESTING DATE	No tax consequences assuming stock options were granted with an exercise price equal to or greater than the fair market value (as determined using certain acceptable methodologies) of the underlying stock on the date of grant. All information in this summary relies on this assumption. If this is not the case, Internal Revenue Code Section 409A may apply. Please consult BDO USA global equity for more information.	No tax consequences.
EXERCISE DATE	The difference between the fair market value and the exercise price (spread) will be taxable as ordinary income on the exercise date. This income may also be subject to state and local taxes.	The employer receives a deduction in the same year the employee has taxable income as a result of exercising the option. The amount of the deduction is generally the same as the amount of the employee's taxable income.
WITHHOLDING & PAYMENT OF TAX	The employee's taxable compensation is subject to withholding by the employer. Any special rules that require backup or foreign withholding is beyond this summary. Please reach out to the BDO USA global equity contact for more information.	Withholding is required on the employee's taxable event. The tax must be collected from the employee either by check, reduction of shares issued, or withholding from other cash compensation payments.
SOCIAL SECURITY	Amounts taxable as employee compensation are subject to social security withholding to the extent the employee has not exceeded the applicable wage base.	In addition to collecting and remitting the employee's portion of FICA taxes, the employer must remit its share of social taxes in the same manner as income tax withholdings.
REPORTING	Individuals are required to file an annual income tax return to report taxable income. Employees will include the option income as included in their Form W-2 provided by the employer.	The company must report details of taxable compensation and withholding to the tax authorities and employees. Details for employee amounts must also be reported quarterly.

For further information and to register for future updates contact:

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This summary has been prepared on the basis that employees are resident in the United States throughout the period from grant of stock options until the shares are sold and that the employee is employed by a local employer in the United States, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

This information is current as of August 2016.

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BDO

TAX TREATMENT OF STOCK OPTIONS
UNITED STATES

	EMPLOYEE	EMPLOYER
SALE OF SHARES	The gain or loss on the disposition of the shares is taxed as a capital transaction on the individual's annual income tax return. If the shares are held for more than 12 months after exercise a lower rate of tax applies.	No tax consequences.
IS A CORPORATION TAX DEDUCTION AVAILABLE?	The employer receives a deduction in the same year the employee has taxable income as a result of exercising the option. The amount of the deduction is generally the same as the amount of the employee's taxable income. However, the employer's deduction can be limited in certain circumstances.	
"QUALIFYING" PLANS AVAILABLE?	Incentive Stock Options (ISOs) are not taxed upon exercise nor does the employer receive and income tax deduction. The employee is taxed only upon disposition. If the required holding period is satisfied then all taxable income is taxed at capital gain rates. If the required holding period is not satisfied the disqualifying disposition generates taxable compensation based on the value of the stock when disposed. Please reach out to a BDO USA global equity contact for more information.	
INTERNATIONALLY MOBILE EMPLOYEES	The above summary has been prepared on the basis that employees are resident in the United States throughout the period from the grant of the stock option until the shares are sold. The rules for internationally mobile employees are complex and there are specific rules applicable to non-resident individuals. Generally, the United States will have the right to tax the income if there is a link between the shares which the employee has received and the work of the employee performed in the United States. The United States broadly sources equity income based on the period between grant and vesting. It is highly recommended that advice is sought on an individual case by case basis.	
OTHER POINTS FOR CONSIDERATION	All information in this summary relies on the assumption that the stock options are granted with an exercise price equal to or greater than the fair market value (as determined using certain accepted methodologies) of the underlying stock on the date of grant. This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law. There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. We recommend that legal advice is obtained prior to the implementation of any employee equity plan.	

KEY ACTION POINTS

- ✓ It is important to determine whether stock options plans are subject to, and in compliance with, IRC Section 409A as this will determine the taxation to a great extent.
- ✓ Federal and state securities laws govern the grant of securities under employee benefit plans. At a federal level, all securities offerings must be registered or subject to an exemption from registration. Blue Sky Laws should be reviewed for each state in which offerees reside.
- ✓ Employers are responsible for the withholding of tax and social security on the employee equity awards. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report stock award income through the payroll.
- ✓ There are specific rules applicable for Internationally Mobile Employees holding equity in the United States. We recommend that Companies review their systems to ensure that Internationally Mobile Employees moving in or out of the United States whilst holding equity can be identified to ensure correct compliance and identify any potential trailing liabilities.

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