

# The RSU Tax Guide

RSUs are taxed as ordinary income the day they vest, and the default withholding often is not enough. This guide shows the gap before it surprises you.

Restricted stock units feel like a bonus that arrives as shares, and the tax often catches people off guard. The problem is rarely the tax rate itself. It is that the amount withheld when your shares vest is frequently less than the tax you actually owe.

## How RSUs are taxed at vesting

When RSUs vest, the value of the shares that day is treated as ordinary income, exactly like salary. It shows up on your pay records and is subject to income tax and payroll tax. You owe this whether or not you sell the shares.

To cover it, your employer usually withholds some shares. The catch is the rate they use. Supplemental income like RSUs is typically withheld at a flat 22 percent, and that flat rate can be well below the marginal bracket a higher earner actually falls into.

## A worked example you can reproduce

Suppose 50,000 dollars of RSUs vest and you are in the 32 percent marginal bracket. The flat withholding takes 22 percent, which is 11,000 dollars. Your actual tax on that income is closer to 32 percent, which is 16,000 dollars.

That leaves a 5,000 dollar gap you will owe at tax time, even though it felt like the tax was already handled. The RSU Calculator shows this shortfall directly, which most simple tools miss.

## What happens after vesting

Once shares vest and are taxed as income, your cost basis is that vesting-day value. If you hold and the price rises, the increase is a capital gain taxed only when you sell. Held over a year, it is a long-term gain at lower rates. Sold within a year, it is a short-term gain at ordinary rates.

If the price falls after vesting, you can still owe tax on the higher vesting-day value while holding shares now worth less. This is why many people sell at vest and treat the proceeds as cash, removing the single-stock risk.

## How to avoid the surprise

Set aside the difference between your marginal rate and the 22 percent withheld, or increase your other withholding or estimated payments to cover it. Planning for the gap in advance turns an unpleasant April into a non-event.

Because RSU income can also push you into a higher bracket or trigger additional Medicare tax, it is worth running your full picture. The Take-Home Paycheck and Capital Gains Tax calculators help you see the income and the eventual sale together.

**Key takeaway.** RSUs are salary paid in shares. The 22 percent withheld is often not the tax you owe, so plan for the gap between it and your real bracket.

## Assumptions

- Vested RSUs are taxed as ordinary income based on the share price on the vesting date.
- The flat 22 percent supplemental withholding applies below 1 million dollars of supplemental wages, and 37 percent above it.
- Any gain after vesting is a separate capital gain, taxed when you sell.

## Sources

- IRS, supplemental wages and withholding (Pub. 15)
- IRS, stock options and equity compensation basics

Educational only. Not financial, tax, or investment advice. Figures use the assumptions stated above and ignore taxes, fees, and inflation unless noted.