

## Stock Plan Services

# Tax Withholding in Company Stock Plans

## Net Shares, Sell to Cover, Cash



Tax withholding is money your employer holds back from your equity compensation to be paid toward your taxes.

In most stock plans,<sup>1</sup> your award is considered income and subject to ordinary income, Social Security, and Medicare taxes. Your company withholds these taxes for you and reports these amounts on your Form W-2 for tax-filing purposes.

The timing of when tax is withheld varies by each type of stock plan. Learn more about [when and how stock plans are taxed](#).

### How tax withholding works

The three most common ways that taxes can be withheld are: netting shares, selling to cover, and paying with cash. The hypothetical examples below show how each withholding method works and the impact it has on the shares or cash received.

Your company may give you the opportunity to choose which tax withholding method to use. Check your plan documents in [NetBenefits®](#) to see what methods may be available and if a decision needs to be made within a certain time period.

Let's assume an employee has **250 shares** of restricted stock vesting at a stock price of **\$10 per share**.

<b>Total taxable income</b> (250 shares x \$10):	<b>\$2,500</b>	▶	<b>Tax withholding</b> (\$2,500 x 22%) = <b>\$550</b>
<b>Flat withholding rate:</b>	<b>22%</b>		

### NET SHARES

Your employer withholds shares to pay your taxes.

<b>Tax withholding:</b> <sup>3</sup>	<b>\$550</b>
<b>Number of shares withheld to meet tax withholding obligation</b> (\$550 ÷ \$10):	<b>55</b>
<b>Number of shares deposited in the employee's Fidelity Account®</b> (250 – 55):	<b>195</b>
<b>Dollar value of shares deposited in the employee's Fidelity Account®</b> (195 x \$10):	<b>\$1,950</b>

If net share withholding is used, **55 shares** are withheld for taxes. The employee will then have **195 shares** left from the 250 initial shares deposited into their account. In this example, this amounts to \$1,950.

### SELL TO COVER

Shares are sold to pay your taxes and any commissions or fees.

<b>Tax withholding:</b> <sup>3</sup>	<b>\$550</b>
<b>Number of shares sold to meet tax withholding *</b> (\$550 ÷ \$10):	<b>55</b>
<b>Number of shares deposited in the employee's Fidelity Account®</b> (250 – 55):	<b>195</b>
<b>Dollar value of shares deposited in the employee's Fidelity Account®</b> (195 x \$10):	<b>\$1,950</b>

If sell to cover withholding is used, **55 shares** are sold for tax withholding. The employee will then have **195 shares** left from the 250 initial shares deposited into their account. In this example, this amounts to \$1,950.

### CASH<sup>2</sup>

Cash in your Fidelity Account® is used to pay your taxes.

<b>Tax withholding:</b> <sup>3</sup>	<b>\$550</b>
<b>Tax withholding is paid in cash by debiting the employee's Fidelity Account®:</b>	<b>\$550</b>
<b>Number of shares deposited in the employee's Fidelity Account®</b> (250 – 0):	<b>250</b>
<b>Dollar value of shares deposited in the employee's Fidelity Account®</b> 250 x \$10):	<b>\$2,500</b>

If cash withholding is used, **\$550** is withheld from the employee's Fidelity Account® for taxes. The employee will have the **250 shares** deposited into their account. In this example, this amounts to \$2,500.

To estimate your tax withholding and check your award details log in to [NetBenefits®](#).



<sup>1</sup>Tax withholding doesn't apply to incentive stock options or tax-qualified employee stock purchase plans (ESPP).

<sup>2</sup>If you use the cash tax withholding method and choose to use cash from your Fidelity Account, you must have cash in the account on the applicable date to avoid having your account restricted. The cash withholding method does not fund your account. If you already have funds in your account, no further action is needed. You may deposit funds in your account by setting up an electronic funds transfer, make a deposit at a Fidelity Investor Center, or wire money to your account.

<sup>3</sup>Tax withholding is calculated based on the total fair market value of your grants on the exercise or vesting date (less the amount you paid for the shares, if any) multiplied by the tax withholding rate supplied by your company to Fidelity. You must have funds available in your Fidelity Account to satisfy the withholding obligation if you are using the cash method. The withholding will be sent to your employer for tax payment.

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