FOR ENGINEERING PROFESSIONALS IN AEC & TECH

The Engineer's Guide to *Equity Compensation* & Tax Planning

A practical resource for making informed decisions about RSUs, options, ESPP, retirement, and the tax strategy that ties them together.

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WRITTEN BY

Robert London

RICP® CLTC®, Founder - London Wealth Strategies

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What's Inside

INTRODUCTION

A note before you begin

If you're an engineer or tech professional, your compensation package is probably more complex than most. Salary is just the starting point.

Add in RSUs, stock options, ESPP, a 401(k) with multiple contribution types, and a stack of insurance benefits, and there's a lot to keep track of.

In my experience working with hundreds of engineers over the last decade, most are proactive about understanding their benefits and taking advantage of what's offered. But understanding and optimizing are two different things. The gap between knowing what you have and fully leveraging it as part of a comprehensive plan is where most of the opportunity lives.

This guide is designed to help bridge that gap. Whether you're early in your career trying to make sense of your first equity grant, or you're a seasoned professional looking to fine-tune what you've built, there's something here for you. The goal isn't to turn you into a tax expert; it's to give you enough understanding to make informed decisions, spot opportunities you might be missing, and know when to ask for help.

> *Some sections will feel like a refresher, and others might introduce strategies you've never heard of. Take what's useful and skip what you already know.*

If anything sparks a question or you want to talk through how this applies to your situation, I'm always happy to connect.

Robert London, RICP®, CLTC®

Founder, London Wealth Strategies

How to Read This Guide

Color signals the type of information at a glance, so you can scan for what matters to you.

Part & Appendix Dividers
Charcoal banners open each major part and reference appendix.

Watch Out
An amber box flags a common trap or costly mistake to avoid.

How It Works
A beige box walks through steps, strategies, or key considerations.

The Fix
A bordered box gives the practical way to steer clear of the trap.

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PART ONE

Understanding Your Compensation Package

Section 01

Salary, Benefits & Retirement Accounts

Before we get into equity compensation and tax strategies, it's worth starting with the foundation: your salary, benefits, and retirement accounts.

These are the building blocks of your total compensation, and while they may seem straightforward, there are details worth understanding, especially when it comes to how they show up on your pay stub and how your elections impact your take-home pay.

Your paycheck

Every pay period, your employer withholds money from your gross pay for taxes, benefits, and retirement contributions. What's left is your net pay: the amount that actually hits your bank account.

Federal income tax is withheld based on the information you provided on your W-4 when you were hired. If you haven't updated it since you started, or since a major life change like getting married or having kids, there's a good chance your withholding isn't quite right. Too little withheld means you'll owe at tax time; too much means you've been giving the government an interest-free loan.

Marginal tax brackets are often misunderstood. The U.S. uses a progressive tax system, which means not all of your income is taxed at the same rate; only the income within each bracket is taxed at that bracket's rate. If you're a single filer earning $120,000 in 2026, you're in the 22% bracket, but you're not paying 22% on all $120,000. You're paying 10% on the first $11,925, 12% on the next chunk, and so on. Understanding this helps you make smarter decisions about Roth conversions, bonus timing, and equity sales.

Health & insurance benefits

Most employers offer a menu of benefits that go beyond your paycheck. The key with all of these is to avoid defaulting into elections without thinking them through.

Health insurance

Typically the biggest line item. You'll usually choose between plan types like an HMO, PPO, or a High Deductible Health Plan (HDHP). If you're generally healthy and want to maximize tax savings, an HDHP paired with a **Health Savings Account (HSA)** can be powerful; contributions are pre-tax, growth is tax-free, and qualified withdrawals are tax-free. It's the only account in the tax code with a triple tax advantage.

Group life insurance

Often provided at no cost, typically covering one to two times your annual salary. You may be able to purchase additional coverage at group rates, but those rates aren't always as competitive as they seem. Group plans use age-banded pricing, so premiums increase as you get older, often exponentially. For employees in the first half of their career, group rates are usually a good deal. In the second half, it's not uncommon to find an outside carrier is significantly cheaper. It's never a bad idea to get a third-party quote before automatically opting into supplemental group coverage.

Group disability insurance

Replaces a portion of your income if you can't work due to illness or injury. Short-term disability (STD) usually covers the first few months; long-term disability (LTD) kicks in after and can last years or until retirement age.

WHERE MOST PEOPLE HAVE A GAP

Group plans typically replace only **60% of base salary**, and if your employer pays the premium (common), the benefit is taxable, so your actual take-home replacement could be closer to **40–45%** of what you were earning. If you rely solely on your group plan, you may be significantly underinsured without realizing it.

If you haven't done a disability gap analysis, I'd highly recommend it; it's one of the most common and most overlooked gaps in financial planning. Supplemental individual policies can fill that gap, and unlike group coverage, they're portable if you change jobs.

Accidental death & dismemberment (AD&D)

Provides a benefit if you die or lose a limb in an accident. It's usually inexpensive, but narrow in scope; it won't pay out for illness or most natural causes of death. Open enrollment comes once a year; it's worth 30 minutes reviewing your options rather than clicking through on autopilot.

Retirement accounts: 401(k) basics

Your 401(k) is one of the most powerful wealth-building tools available, but not all contributions are created equal. Most plans offer at least two contribution types, and some offer three.

PRE-TAX

Reduces taxable income today. No tax going in; you pay ordinary income tax on withdrawals. The default for most, sensible if you expect a lower bracket later.

ROTH

After-tax dollars, no break today, but qualified withdrawals are completely tax-free. Attractive if you expect equal or higher rates later, or want tax diversification.

AFTER-TAX

Different from Roth: contributions are after-tax, earnings grow tax-deferred. The real power is in-plan Roth conversions: the Mega Backdoor Roth.

Employer match is free money, but it comes with rules. Most employers match a percentage of your contributions (e.g., 50% of the first 6%). Some vest immediately; others vest over a schedule (e.g., 20% per year over five years). If you leave before you're fully vested, you forfeit the unvested portion.

Investment selection deserves attention. 401(k) plans have a limited, employer-curated menu. If you haven't made direct elections, you've likely defaulted into a target date fund: a fund that auto-adjusts based on a theoretical retirement year. Target date funds aren't inherently bad, but they make assumptions about your risk tolerance and timeline that may not match your actual plan. Log in, understand what you're invested in, review your allocation, and make changes if needed. The sooner you take control, the more time those decisions have to compound in your favor.

401(K) CONTRIBUTION TYPES AT A GLANCE

	PRE-TAX	ROTH	AFTER-TAX
Tax on contributions	Deferred	Taxed now	Taxed now
Tax on growth	Deferred	Tax-free	Deferred until withdrawn / converted
Tax on withdrawal	Ordinary income	Tax-free (if qualified)	Earnings taxed as ordinary income
2026 employee limit	$23,500	$23,500	Up to $70,000 total (incl. match)
Income limits	None	None	None
Best for	Higher bracket now, lower in retirement	Lower bracket now, higher later	Maxed other options, want more Roth

Section 02

Restricted Stock Units (RSUs)

RSUs are one of the most common forms of equity compensation in tech, and relatively straightforward compared to stock options. But "straightforward" doesn't mean there aren't pitfalls, especially around taxes.

How RSUs work

An RSU is a promise from your employer to give you shares of company stock at a future date, typically when certain conditions are met (usually just staying employed). When those conditions are satisfied, the RSUs "vest," and you receive actual shares.

Most grants follow a vesting schedule, commonly four years with a one-year cliff. You receive nothing for the first year, then a chunk vests at the one-year mark, with the remainder vesting monthly or quarterly over the following three years. Some companies use back-weighted schedules where more shares vest in later years, so it's worth understanding your specific grant terms.

How RSUs are taxed

Here's the key thing: **RSUs are taxed as ordinary income the moment they vest, not when you sell.** The value of the shares on the vesting date is added to your W-2 income for that year, and you'll owe federal, state, and payroll taxes on that amount.

> THE 22% PROBLEM
>
> Your employer typically withholds shares to cover taxes at vesting, but the default federal withholding rate for supplemental income is **22%**. If you're a well-compensated engineer, your actual marginal rate is likely 32%, 35%, or even 37%. Add state taxes, and you could easily be underwithheld by 10–15% or more. This catches a lot of people off guard at tax time.

If you have significant RSU income, consider adjusting your W-4 withholding, making quarterly estimated payments, or setting aside cash from share sales to cover the gap.

What to do when shares vest

Once your RSUs vest, you own actual shares—and you have a decision to make. There's no universal right answer, but the decision should be intentional, not a default.

HOLD

Betting on the stock continuing to rise. Remember you're already exposed via salary, benefits, and future grants; concentrating more net worth in one stock adds risk.

SELL

Locks in the value and eliminates further stock-price risk. Since you're already taxed at vesting, selling right away usually creates little to no additional capital gains.

DIVERSIFY

Sell some or all and reinvest in a broader portfolio. Often the most prudent for risk management, though it means overcoming attachment to your company's stock.

Section 03

Stock Options: ISOs vs. NSOs

Stock options give you the right to purchase company stock at a specific price, the "strike" or "exercise" price, at some point in the future.

Unlike RSUs, where shares arrive automatically at vesting, options require you to take action, and pay money, to acquire shares. There are two main types, and they're taxed very differently.

Incentive Stock Options (ISOs)

ISOs are the more tax-favorable type, but they come with complexity.

- You receive a grant with a strike price (usually fair market value on the grant date).
- The options vest over time, just like RSUs.
- Once vested, you can exercise by paying the strike price to acquire shares.
- Hold the shares at least **one year after exercise and two years after the grant date**, and any gain is taxed as long-term capital gains: a "qualifying disposition."
- Sell before meeting those holding periods and it's a "disqualifying disposition," taxed as ordinary income.

THE CATCH: AMT

When you exercise ISOs, the difference between the strike price and fair market value (the "bargain element") is a preference item for the **Alternative Minimum Tax**. Exercising a large number of ISOs in a single year can trigger a significant AMT bill, even though you haven't sold the shares or received any cash.

AMT planning is critical with ISOs. Exercising in a lower-income year, spreading exercises across multiple years, or exercising early when the spread is small can all help manage the impact.

Non-Qualified Stock Options (NSOs)

NSOs are more straightforward from a tax perspective, though less favorable overall.

- When you exercise, the bargain element (fair market value minus strike price) is taxed immediately as ordinary income and shows up on your W-2.
- Your employer withholds taxes at the time of exercise.
- Any additional gain when you eventually sell is taxed as capital gains, short- or long-term depending on how long you held after exercise.

NSOs don't have AMT implications, but you're paying ordinary income rates on the spread at exercise, which can be substantial if the stock has appreciated significantly.

Key considerations

BEFORE YOU EXERCISE

Expiration dates matter. Most options expire 10 years after grant, or 90 days after you leave the company (some firms offer extended windows). If you don't exercise before expiration, you lose them.

Exercise timing is strategic. With ISOs, exercising early (small spread) minimizes AMT. With NSOs, you might wait until you're ready to sell to avoid tying up cash.

Underwater options have no value. If the current price is below your strike, exercising means paying more than the shares are worth.

Section 04

Employee Stock Purchase Plans (ESPP)

An ESPP lets you purchase company stock at a discount, typically through payroll deductions. If your company offers one and you're not participating, you're likely leaving money on the table.

How ESPPs work

- You elect to contribute a percentage of your salary (usually up to 10–15%) during an "offering period."
- At the end of the period (often six months), your accumulated contributions buy company stock.
- The purchase price is typically **15% below** the stock price, and many plans use a "lookback," giving you 15% off the lower of the price at the beginning or end of the offering period.

That lookback is powerful. If the stock rises during the period, you buy at 15% off the starting price. If it falls, you buy at 15% off the current price. Either way, you're getting a discount.

Qualifying vs. disqualifying dispositions

Qualifying disposition: Hold the shares at least one year after purchase and two years after the offering period began, and you get favorable treatment; the discount (up to 15%) is taxed as ordinary income, and any additional gain as long-term capital gains.

Disqualifying disposition: Sell before meeting those periods and the entire discount is taxed as ordinary income, with any additional gain as capital gains. Many people sell immediately to lock in the guaranteed discount and eliminate stock-price risk; the math often still works in your favor, especially if you're concerned about concentration.

THE COST BASIS TRAP

When you sell ESPP shares, your broker reports the cost basis to the IRS, but often reports only what you *paid*, not the adjusted basis that accounts for income you've already been taxed on. If you don't adjust it, you'll pay tax twice on the same income. Make sure you (or your preparer) use the correct adjusted cost basis on **Form 8949**; your company should provide a supplemental statement or **Form 3922** with the figures you need.

Section 05

Other Equity Structures

Not all equity comes as RSUs or options. Depending on your company's structure and stage, you might encounter other forms of equity or profit-based compensation.

Profit sharing

An employer contribution to your retirement account (usually a 401(k)) based on company performance. Unlike a match, you don't have to contribute anything to receive it; it's purely discretionary. Contributions are pre-tax and grow tax-deferred, the amount varies year to year, and it's subject to the same vesting schedules as employer matches. Essentially bonus compensation that goes straight into your retirement account.

Employee Stock Ownership Plans (ESOPs)

A retirement plan that invests primarily in company stock. The company contributes shares (or cash to buy shares) on your behalf, and you accumulate ownership over time. ESOPs are most common in privately held companies and can be a significant wealth-builder if the company grows, but they carry concentration risk, since your retirement savings are heavily tied to one company. If you're in an ESOP, pay attention to the annual valuation process and understand your diversification rights, especially as you approach retirement.

Phantom stock & Stock Appreciation Rights (SARs)

These are equity-*like* structures that don't involve actual ownership of shares.

PHANTOM STOCK

A cash bonus tied to the value of a set number of shares. When it "vests" or pays out, you receive cash equal to those shares' value (sometimes with dividends along the way). Taxed as ordinary income when paid.

SARS

Similar, but pay out only the *appreciation*: the difference between grant price and current price at exercise. Typically cash-settled and taxed as ordinary income.

Both are common in private companies that want to offer equity-like incentives without diluting actual ownership. From a planning perspective, treat them like a cash bonus tied to company performance.

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PART TWO

Tax Optimization Strategies

Section 06

Avoiding Common Tax Mistakes

Equity compensation creates opportunities—but also traps. Here are the most common mistakes I see, and how to avoid them.

RSU withholding shortfalls

The default 22% federal withholding on RSU income is almost always insufficient for higher earners. If you're in the 32%+ bracket, you could owe thousands at tax time.

> HOW TO AVOID IT
>
> Increase your W-4 withholding, make quarterly estimated payments, or set aside a portion of each vest in a savings account earmarked for taxes. Don't let a big vest turn into a surprise tax bill.

ESPP cost basis errors

Your broker often reports only what you paid, not the adjusted basis that reflects income already taxed. Use the broker's basis without adjustment and you'll pay tax on the same income twice.

> HOW TO AVOID IT
>
> Keep your Form 3922 and any supplemental broker statements. When filing, make sure you or your preparer adjust the cost basis on Form 8949 to reflect the compensation income already reported on your W-2.

Wash-sale traps with vesting schedules

A wash sale occurs when you sell a stock at a loss and buy substantially identical stock within 30 days before or after the sale; the loss is disallowed. Here's the equity-comp twist: if you sell company stock at a loss but have RSUs vesting within that 30-day window, the vesting shares can trigger a wash sale, even though you didn't intentionally "buy" anything.

> HOW TO AVOID IT
>
> Be aware of your vesting schedule when planning sales for tax-loss harvesting. If you have frequent vesting (e.g., monthly), harvesting losses on company stock becomes much harder.

Forgetting state taxes

If you've moved states or work remotely across state lines, equity compensation can create multi-state tax obligations. Some states tax equity based on where you worked during the vesting period, not just where you live when it vests.

> HOW TO AVOID IT
>
> If you've relocated or have a complex work arrangement, consult a tax professional who understands multi-state equity compensation rules.

Section 07

Advanced Strategies

Once you've got the basics down, more sophisticated strategies can help you optimize your equity compensation and overall tax picture.

Net Unrealized Appreciation (NUA)

If you have company stock in your 401(k) (from an ESOP, profit sharing, or direct purchase), NUA can be powerful when you leave your employer. Instead of rolling the company stock into an IRA (where all withdrawals are taxed as ordinary income), you transfer the shares to a taxable brokerage account. You pay ordinary income tax on the original *cost basis*, but the appreciation—the net unrealized appreciation—is taxed at long-term capital gains rates when you eventually sell.

If your company stock has appreciated significantly, this can mean substantial tax savings. But NUA is complex: it must be done as part of a "lump-sum distribution," and there are timing rules. This is not a DIY strategy—work with a financial planner or tax professional.

Mega Backdoor Roth

If your 401(k) allows after-tax contributions and in-plan Roth conversions (or in-service distributions), you can potentially direct up to **$70,000 per year** (2026) into tax-advantaged retirement accounts, far more than the standard $23,500 employee limit.

HOW THE STRATEGY WORKS

1. Max out your pre-tax or Roth 401(k) contributions ($23,500).
2. Contribute additional after-tax dollars up to the total annual limit ($70,000 including employer contributions).
3. Convert those after-tax contributions to Roth (in-plan or by rolling to a Roth IRA).

The converted amount grows tax-free, and qualified withdrawals in retirement are tax-free. Not every plan allows this, so check with your HR department or plan administrator.

Donating appreciated shares

If you're charitably inclined, donating appreciated stock instead of cash can be tax-efficient: you get a deduction for the full fair market value of the shares *and* avoid paying capital gains tax on the appreciation. This works best with shares held more than a year. If you were going to donate cash anyway, consider donating appreciated shares instead and using the cash to replenish your portfolio.

For significant giving, a **Donor-Advised Fund (DAF)** can help: contribute appreciated shares, take the deduction in the current year, then distribute grants to charities over time. This is especially powerful in high-income years when you want to "bunch" deductions.

Tax-loss harvesting (and when it doesn't work)

Selling investments at a loss to offset gains elsewhere is useful, but it has limits:

- **Wash-sale rules** prevent claiming a loss if you buy substantially identical securities within 30 days, and RSU vesting can trigger this.
- **Net capital losses** are limited to $3,000 per year against ordinary income (excess carries forward).
- **It's a deferral, not elimination**; reinvesting in similar assets lowers your cost basis, so you'll pay more tax when you eventually sell.

It works best when you have realized gains to offset and can avoid wash sales, and less well if most gains are unrealized or your vesting schedule makes wash sales unavoidable.

ISO exercise timing & AMT planning

With ISOs, the timing of your exercise can significantly impact your tax bill, because the bargain element is an AMT preference item.

STRATEGIES TO CONSIDER

· Exercise early, when the spread is small, to minimize AMT exposure.
· Spread exercises across multiple tax years to stay below AMT thresholds.
· Exercise in low-income years (a sabbatical, job change, or employment gap).
· Model the AMT impact before exercising; a tax professional can run projections to find the optimal exercise amount.

Remember: AMT paid can generate a credit you may recover in future years, but the cash-flow impact in the year of exercise is real. Plan accordingly.

Section 08

Putting It All Together

Understanding each piece of your compensation matters, but the real value comes from integrating everything into a cohesive plan.

A year-round tax planning calendar

Tax planning shouldn't happen only in April. Here's a framework for staying ahead.

YOUR PLANNING YEAR

WHEN	FOCUS
January–February	Review last year's return for lessons. Confirm 401(k) elections for the new year. Check ESPP enrollment if a new offering period starts. Gather Forms W-2, 1099-B, 3922, and supplemental equity statements.
March–April	File taxes (or extension) and review any surprises. Assess whether estimated payments are needed this year. Review the year's RSU vesting schedule ahead.
May–June	Mid-year check-in on 401(k) contributions. Review any option grants approaching expiration. Consider ISO exercises if spreading across tax years.
July–August	ESPP purchase dates often fall mid-year; decide hold vs. sell. Review 401(k) and brokerage allocation. Check progress toward annual savings goals.
September–October	Open enrollment approaches; review benefits. Compare group life and disability rates to outside carriers. Model year-end scenarios: Roth conversions, tax-loss harvesting, charitable giving.
November–December	Final push to hit the 401(k) max. Execute planned tax-loss harvesting before year-end. Make charitable contributions (appreciated shares or DAF). Review equity grants and vesting for next year. Confirm W-4 withholding.

Concentration risk: how much is too much?

There's no magic number, but a common guideline is to keep any single stock position below **10–15% of total investable assets**. For company stock specifically, remember you're already exposed through salary, benefits, and future grants, so even 10% in stock may represent more concentration than it appears.

> *The risk isn't just the stock going down. It's correlation: if your company struggles, you could face a declining stock price, reduced bonuses, layoffs, and a hit to your equity grants—all at the same time.*

Diversification isn't about being pessimistic on your company. It's about acknowledging that no one can predict the future, and building a portfolio that's resilient regardless of what happens.

When to get professional help

As comprehensive as this guide may be, some situations may benefit most from seeking the advice of a financial planner, tax advisor, or estate planning attorney. For example:

LARGE EQUITY EVENTS

IPO, acquisition, significant vesting, or option exercises.

MULTI-STATE SITUATIONS

Relocation or remote work across state lines.

AMT EXPOSURE

ISO exercises with large spreads.

CONCENTRATED POSITIONS

Developing a diversification strategy.

TRANSITIONS

Job changes and/or retirement: changes to compensation, benefits, and 401(k) providers—plus decisions on rollovers to an IRA, NUA, pension elections, and Social Security timing.

ESTATE & LIFE CHANGES

Trusts, gifting, beneficiaries; marriage, divorce, children, inheritance.

The cost of professional advice is often far less than the cost of mistakes, or missed opportunities.

IN CLOSING

Progress beats perfection

If you've made it this far, you now have a solid foundation for understanding your equity compensation and making smarter tax decisions. The details matter, and small optimizations—done consistently over time—can add up to significant wealth.

But knowledge alone isn't enough. The value comes from taking action: reviewing your benefits elections, adjusting your withholding, understanding your vesting schedule, and building a plan that integrates all the pieces.

> *You don't have to do it all at once. Pick one or two areas where you know you have gaps, and start there.*

And if you'd like help thinking through how any of this applies to your specific situation, I'm always happy to have a conversation. That's what I'm here for.

Robert London, RICP®, CLTC®

Founder, London Wealth Strategies

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APPENDIX A

Quick Reference Tables

EQUITY COMPENSATION COMPARISON

TYPE	TAXED WHEN	TAX TYPE	KEY CONSIDERATION
RSUs	At vesting	Ordinary income	22% default withholding often insufficient
ISOs	At sale (if qualifying)	LTCG (qualifying) or ordinary income (disqualifying)	AMT triggered at exercise
NSOs	At exercise	Ordinary income on spread; capital gains on later appreciation	No AMT, but immediate tax bill
ESPP	At sale	Ordinary income on discount; capital gains on appreciation	Watch for cost-basis errors
Phantom Stock	At payout	Ordinary income	Cash-settled, no actual shares
SARs	At exercise	Ordinary income	Cash-settled, taxed like a bonus

2026 RETIREMENT CONTRIBUTION LIMITS

ACCOUNT TYPE	EMPLOYEE LIMIT	TOTAL (INCL. EMPLOYER)	CATCH-UP (50+)
401(k) / 403(b)	$23,500	$70,000	+$7,500
IRA (Traditional / Roth)	$7,000	$7,000	+$1,000
HSA (Individual)	$4,300	$4,300	+$1,000 (55+)
HSA (Family)	$8,550	$8,550	+$1,000 (55+)

Roth IRA contributions have income limits. Traditional IRA deductibility phases out at certain income levels if covered by a workplace plan.

KEY HOLDING PERIODS FOR FAVORABLE TAX TREATMENT

EQUITY TYPE	HOLDING PERIOD
ISOs	1 year after exercise **and** 2 years after grant date
ESPP	1 year after purchase **and** 2 years after offering-period start
RSUs	1 year after vesting for LTCG on subsequent appreciation
NSOs	1 year after exercise for LTCG on subsequent appreciation

2026 FEDERAL BRACKETS: SINGLE

TAXABLE INCOME	RATE
$0 - $11,925	10%
$11,926 - $48,475	12%
$48,476 - $103,350	22%
$103,351 - $197,300	24%
$197,301 - $250,525	32%
$250,526 - $626,350	35%
Over $626,350	37%

2026 FEDERAL BRACKETS: MARRIED FILING JOINTLY

TAXABLE INCOME	RATE
$0 - $23,850	10%
$23,851 - $96,950	12%
$96,951 - $206,700	22%
$206,701 - $394,600	24%
$394,601 - $501,050	32%
$501,051 - $751,600	35%
Over $751,600	37%

CAPITAL GAINS TAX RATES (2026)

FILING STATUS	0% RATE	15% RATE	20% RATE
Single	Up to $48,350	$48,351 - $533,400	Over $533,400
Married Filing Jointly	Up to $96,700	$96,701 - $600,050	Over $600,050

High earners may also owe the 3.8% Net Investment Income Tax (NIIT) on capital gains.

COMMON TAX FORMS FOR EQUITY COMPENSATION

FORM	WHAT IT REPORTS	WHEN YOU RECEIVE IT
W-2	RSU vesting income, NSO exercise income, ESPP disqualifying-disposition income	January (prior year)
1099-B	Proceeds from stock sales	February (prior year)
3921	ISO exercise details	January (prior year)
3922	ESPP purchase details	January (prior year)
Supplemental Statement	Adjusted cost-basis information	Varies by broker

B

APPENDIX B

Action Item Checklist

Pick one or two areas where you know you have gaps, and start there.

IMMEDIATE: THIS WEEK

- [ ] Log into your 401(k) and confirm your contribution rate and investment elections.
- [ ] Check if your plan allows after-tax contributions and in-plan Roth conversions.
- [ ] Review your ESPP enrollment and contribution percentage.
- [ ] Confirm your W-4 withholding is appropriate for your income level.

SHORT-TERM: THIS QUARTER

- [ ] Calculate your total company-stock exposure (RSUs, ESPP, options, 401(k)).
- [ ] Review your vesting schedule for the next 12 months.
- [ ] Get quotes for individual life and disability insurance to compare to group rates.
- [ ] Conduct a disability gap analysis.

ANNUAL: OPEN ENROLLMENT & YEAR-END

- [ ] Review all benefits elections during open enrollment.
- [ ] Model year-end tax scenarios (Roth conversions, tax-loss harvesting, charitable giving).
- [ ] Confirm beneficiary designations are current on all accounts.
- [ ] Gather equity-comp forms for tax filing (W-2, 1099-B, 3921, 3922).

AS NEEDED

- [ ] Before exercising ISOs: model the AMT impact.
- [ ] Before selling ESPP shares: verify the adjusted cost basis.
- [ ] Before leaving your employer: review option expiration dates and vesting schedules.
- [ ] Before major life changes: review beneficiaries, insurance coverage, and estate documents.

C

APPENDIX C

Glossary

AMT (Alternative Minimum Tax)

A parallel tax system that ensures high-income taxpayers pay a minimum amount of tax. ISO exercises can trigger AMT.

Bargain Element

The difference between the strike price and fair market value at exercise. The taxable spread for NSOs and an AMT preference item for ISOs.

Cost Basis

The original value of an asset for tax purposes, used to calculate capital gains or losses when sold.

Disqualifying Disposition

Selling ISO or ESPP shares before meeting the required holding periods, resulting in ordinary-income treatment.

ESPP (Employee Stock Purchase Plan)

A program allowing employees to purchase company stock at a discount through payroll deductions.

ISO (Incentive Stock Option)

A type of stock option with favorable tax treatment if holding-period requirements are met.

Lookback Provision

An ESPP feature where the purchase price is based on the lower of the stock price at the beginning or end of the offering period.

Mega Backdoor Roth

A strategy using after-tax 401(k) contributions and Roth conversions to contribute significantly more to Roth accounts.

NSO (Non-Qualified Stock Option)

A stock option where the spread at exercise is taxed as ordinary income.

NUA (Net Unrealized Appreciation)

A strategy for transferring appreciated company stock from a 401(k) to a taxable account, allowing the appreciation to be taxed at capital-gains rates.

Qualifying Disposition

Selling ISO or ESPP shares after meeting holding-period requirements, resulting in more favorable tax treatment.

RSU (Restricted Stock Unit)

A promise to deliver shares of company stock upon vesting, taxed as ordinary income at vesting.

Strike Price

The price at which a stock option can be exercised.

Vesting

The process by which an employee earns the right to equity compensation over time.

Wash Sale

Selling a security at a loss and purchasing a substantially identical security within 30 days, disallowing the loss for tax purposes.

ABOUT THE AUTHOR

Robert London, RICP® CLTC®

Robert is a former engineer turned financial planner with nearly a decade of experience helping clients navigate complex financial decisions. After earning his engineering degree and working in the field, he discovered that the "exact answer" approach he learned in school didn't always translate to real-world financial planning, where understanding trade-offs, managing risk, and building long-term relationships matter more than precision.

He specializes in working with engineers and technical professionals, particularly those with concentrated stock positions from RSUs, stock options, or ESPP. He holds the Retirement Income Certified Professional (RICP®) and Certification in Long-Term Care (CLTC®) designations.

His approach is simple: educate rather than dictate, build close professional relationships, and help clients make decisions that align with their values and goals. He believes the best financial outcomes come from curiosity, open-mindedness, and a willingness to question assumptions.

When he's not helping clients, Robert can be found spending time with his wife and two young kids, enjoying an early morning workout in his garage gym, or pursuing his interests as an outdoorsman: camping, long-range shooting, and working with his hands.

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