NUA – Net Unrealized Appreciation

Net Unrealized Appreciation (NUA) is a strategy that can provide tax benefits for investors who have received company stock inside a qualified plan. Employing an NUA strategy can have great benefits but may not be the ideal choice for every investor.

KEY POINTS

- NUA represents the difference between the basis of the stock and the current market value
- The taxation on NUA can be taxed at capital gains rates as opposed to ordinary income as distributions from qualified accounts generally are
- You must distribute the entirety of the company stock within the same tax year
- You must be either separated from the employer, become fully disabled, have reached 59 ½, or deceased
- NUA stock should be held in a separate brokerage account to avoid reporting challenges

ADVANTAGES

- NUA is taxed at capital gains rates as opposed to ordinary income rates
- Since the company stock is transferred to a taxable account, you can avoid Required Minimum Distributions that would result from rolling over to an IRA
- The NUA is not subject to 1 year holding period for long-term capital gains rates
  - **Caveat:** Any additional appreciation after rolling out of the qualified plan is subject to traditional capital gains holding requirements, this includes dividends that are received
- Since you are required to distribute the full balance in the qualified plan, the non-company stock can be rolled into an IRA

DISADVANTAGES

- You must pay ordinary income on the cost basis immediately after transferring company stock to a brokerage account
- Heirs will not receive a step-up on the NUA portion of assets, but they will receive a step up on appreciation after rolling to a brokerage account
- Entire account must be distributed in the same tax year

WHEN MAY IT BE RIGHT FOR YOU?

- Basis in company stock is very low
- If your tax rate is the same or lower than it would be in future years
- If you have the means to pay the tax on the basis
- If you are looking to sell the stock right away
- If the employer stock represents a large percentage of your net worth and you wish to diversify
- If you are nearing Required Minimum Distributions

CASE STUDY

- You purchased your company stock within your 401(k) plan for a total basis of $100,000. The stock has appreciated and is now worth $500,000. You have just retired and are debating on rolling the stock into an IRA or to a brokerage account
- Assuming the tax rate stayed the same in retirement, the net result of utilizing NUA taxation rules results in a savings of $68,000.

TRANSFER TO A BROKERAGE ACCOUNT	
37% Ordinary income tax on $100,000	$37,000
20% Capital Gains Tax on $400,000	$80,000
Total Tax Paid	**$117,000**
ROLLOVER TO AN IRA	
37% Ordinary Income on $500,000	$185,000
Total Tax Paid	**$185,000**

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