

Equity-Based Compensation

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Agenda



- Equity-Based Compensation - Overview
- General U.S. Tax Rules
- Section 409A
- Global Mobility Issues

Equity-Based Compensation - Overview

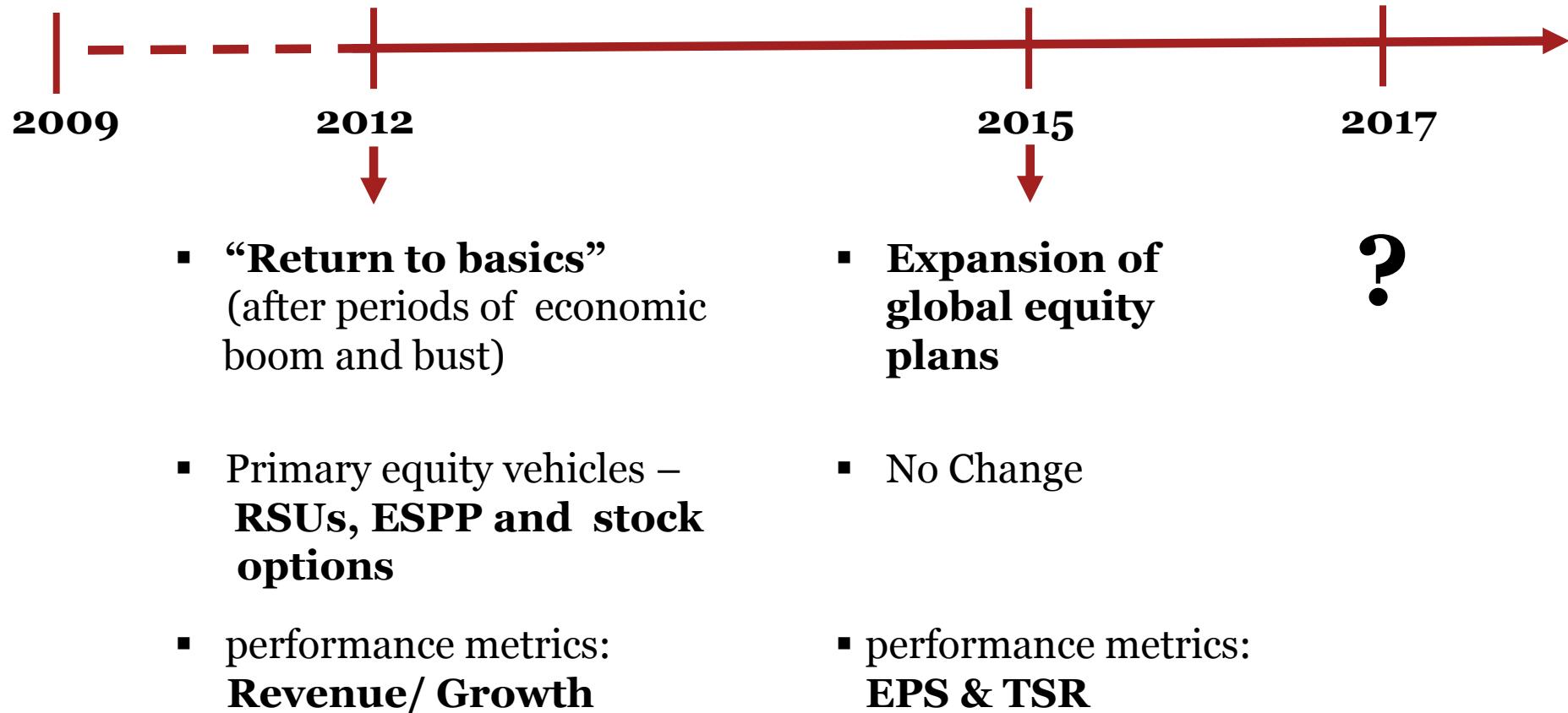
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Common Award Types

Award Type	Description
Stock Options	Offer to purchase company shares at a fixed price
Stock Appreciation Rights (SAR)	Right to receive value equal to appreciation of company stock
Restricted / Performance Stock Awards	Awards of company shares that contain restrictions
Restricted Stock Units (RSU)	Promise to deliver company shares after restrictions lapse
Employee Stock Purchase Plan (ESPP)	A plan which enables the acquisition of company shares at a discount

Equity Grant Practices

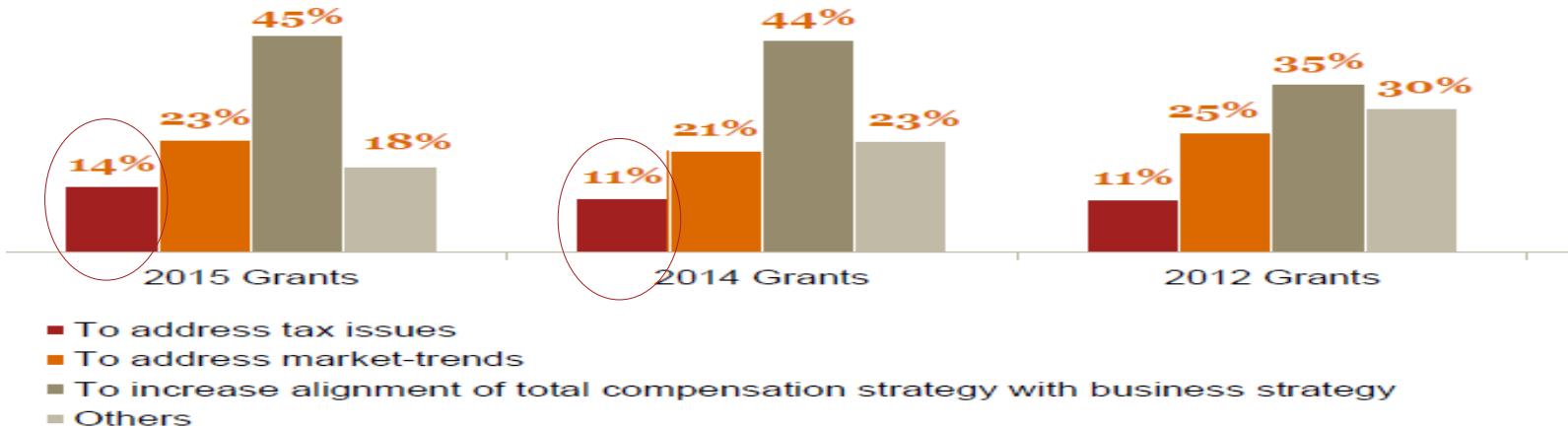
PwC's 2015 Global Equity Incentive Survey



Equity Grant Practices

PwC's 2015 Global Equity Incentive Survey (Cont.)

- Predominant drivers remain the same (increase in “tax issues”):



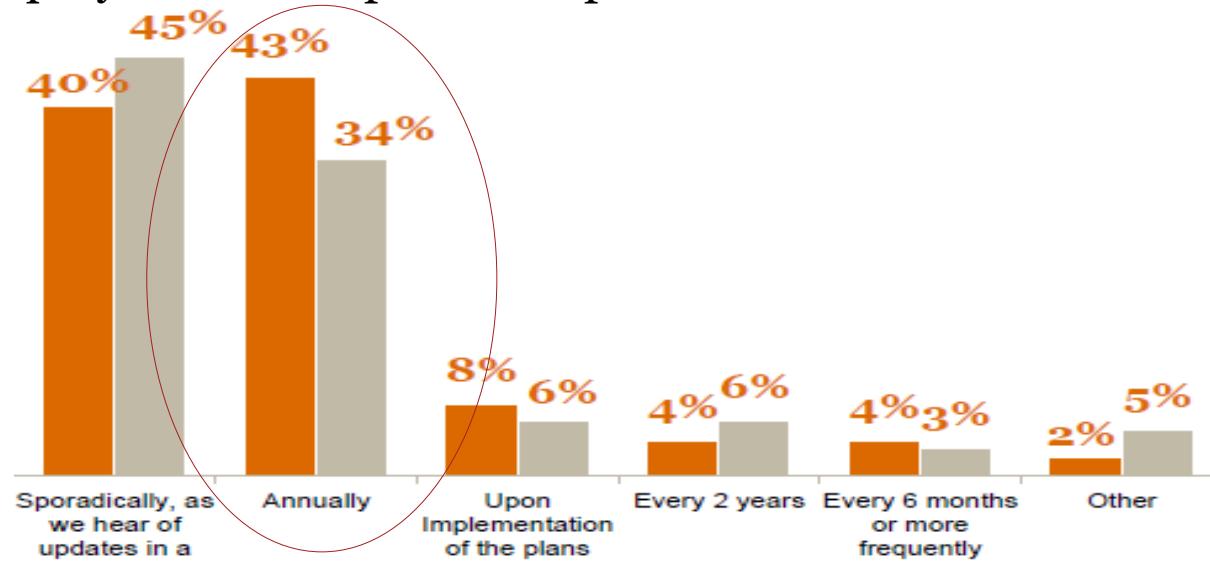
- Main priority in implementing a plan: **tax efficiency/savings for both the employee & the company**.

Tax Compliance and Planning (cont.)

- Complexities of mobile employee taxation
- Challenging compliance requirements



- Notable increase in the frequency of internal tax compliance reviews of equity-based compensation plans



General U.S. Tax Rules

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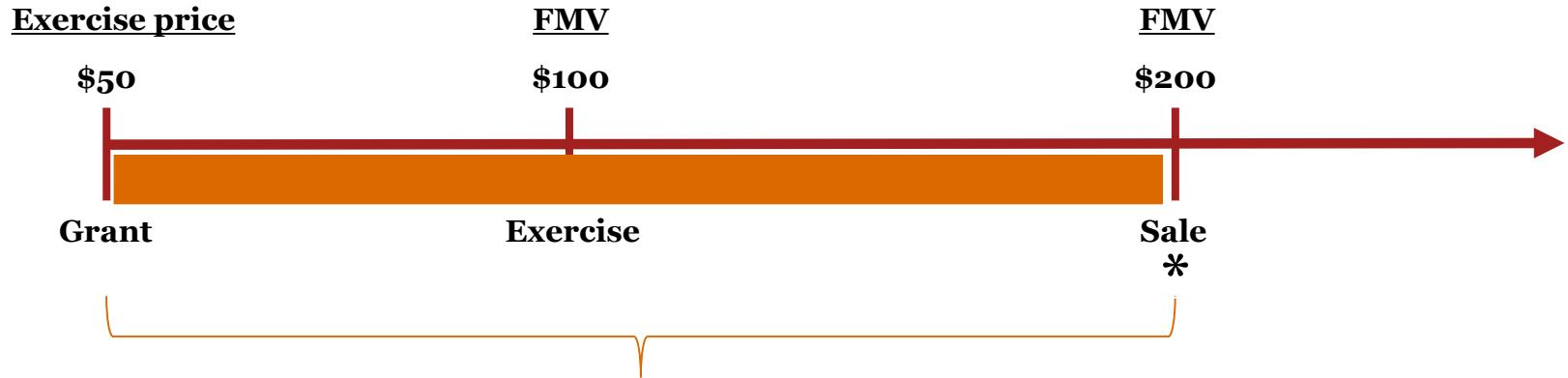
Scope of Application



Incentive Stock Options – ISO - Requirements



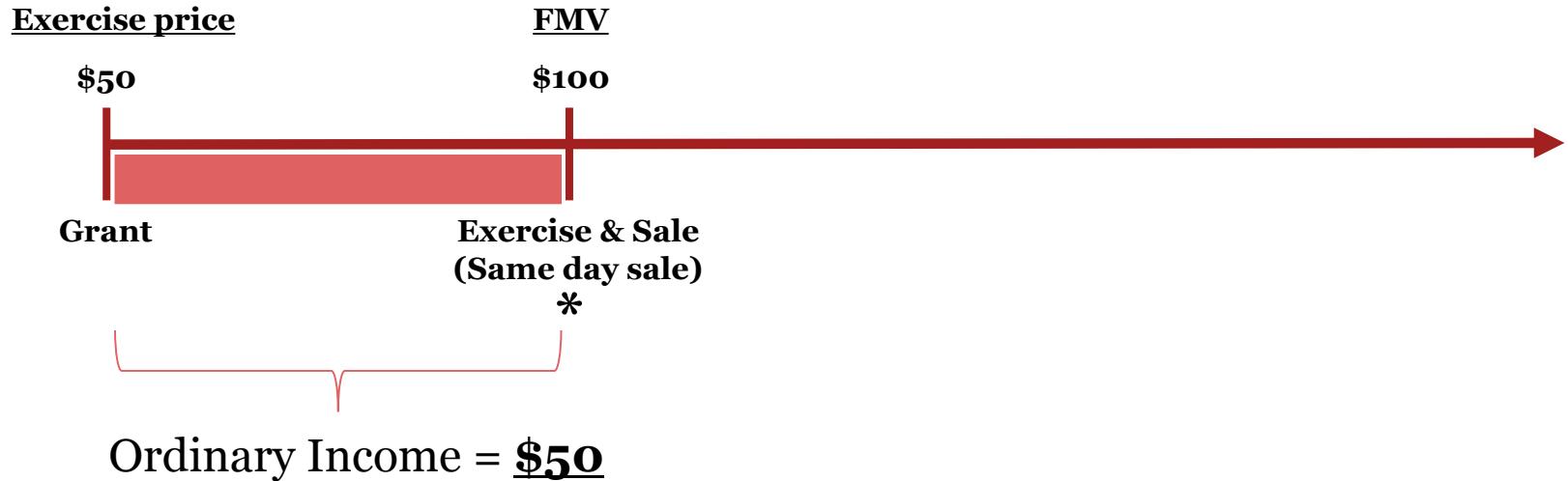
ISO – Qualified Disposition



- Long-Term Capital Gain = \$150 @ 15%/20% + NIIT (3.8%) + State Tax

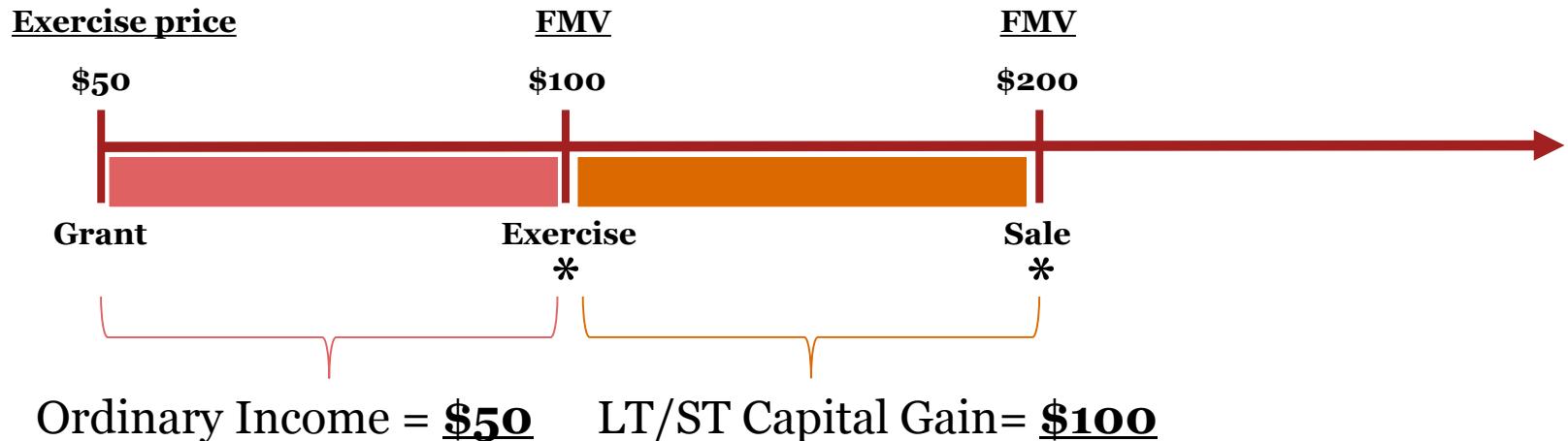
No deduction for employer

ISO – Disqualified Disposition



Employer allowed a deduction equal to the ordinary income of the employee

Non-Qualified Stock Options



Employer allowed a deduction equal to
the ordinary income of the employee

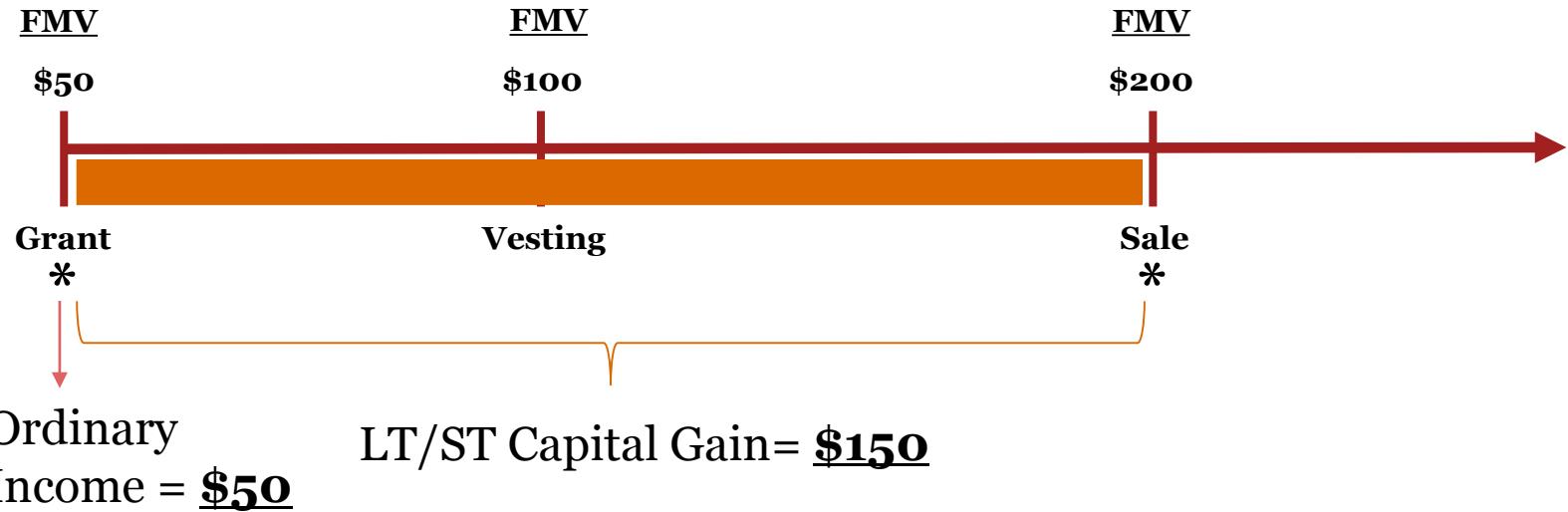
Beware of Section 409A!

Restricted Stock / RSUs



Employer allowed a deduction equal to
the ordinary income of the employee

Restricted Stock – with 83(b) election



Employer allowed a deduction equal to the ordinary income of the employee

Consider planning opportunities!

Section 409A

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What is Section 409A?

**Section 409A covers
“nonqualified deferred compensation”**

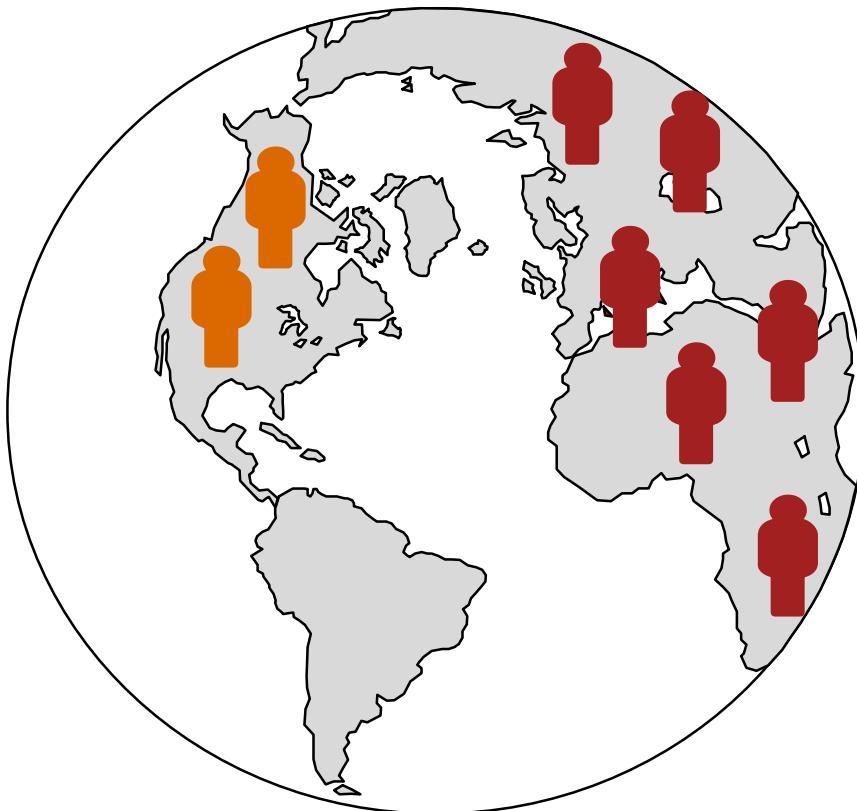


Compensation which employees/service providers have a legally binding right to receive in one taxable year and that is payable in a later year

What is not considered deferred compensation?

Section 409A Applies to...

*Section 409A applies to **any** U.S. taxpayer*

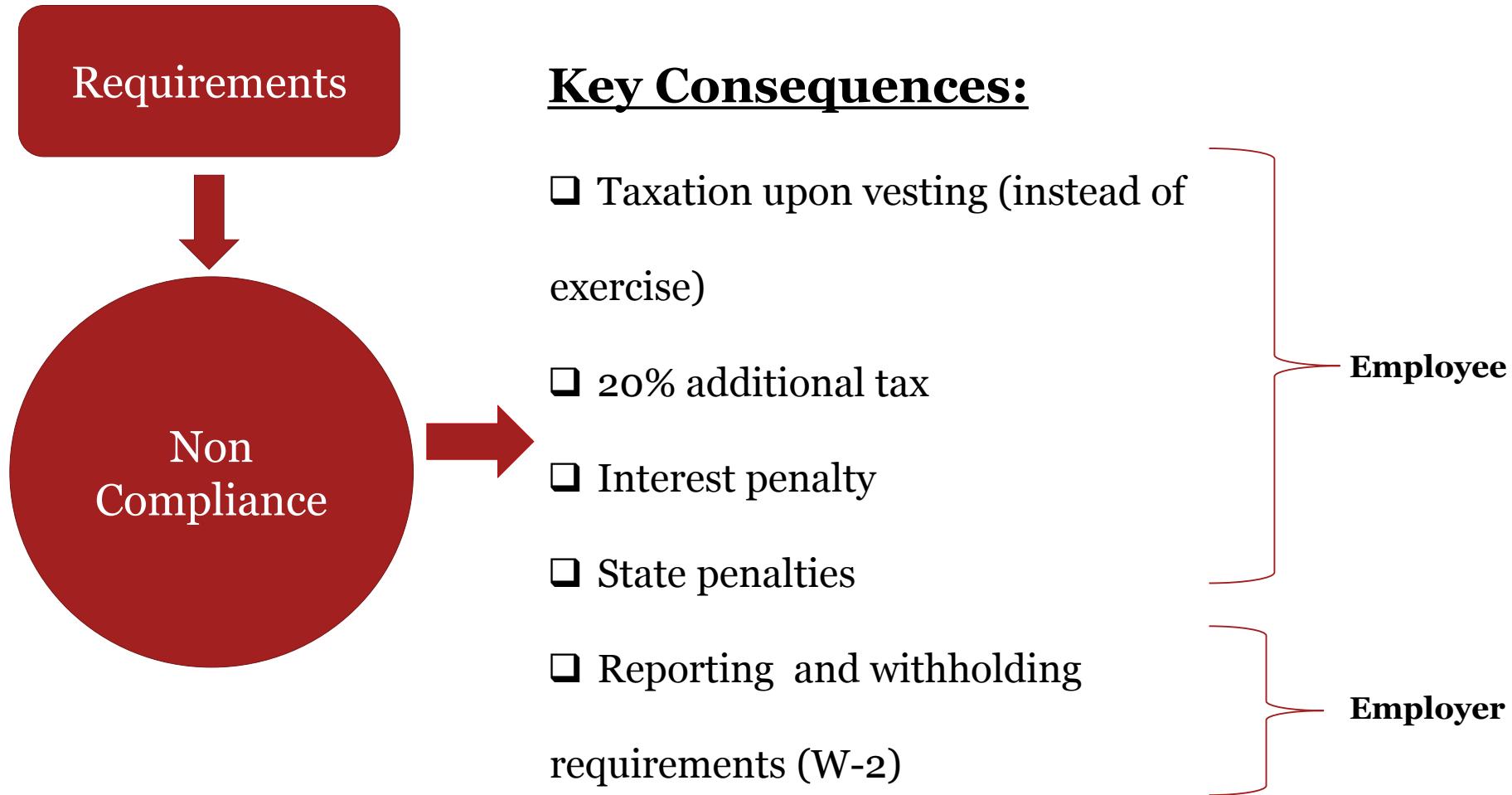


U.S. citizens / resident aliens



Non-resident / resident aliens

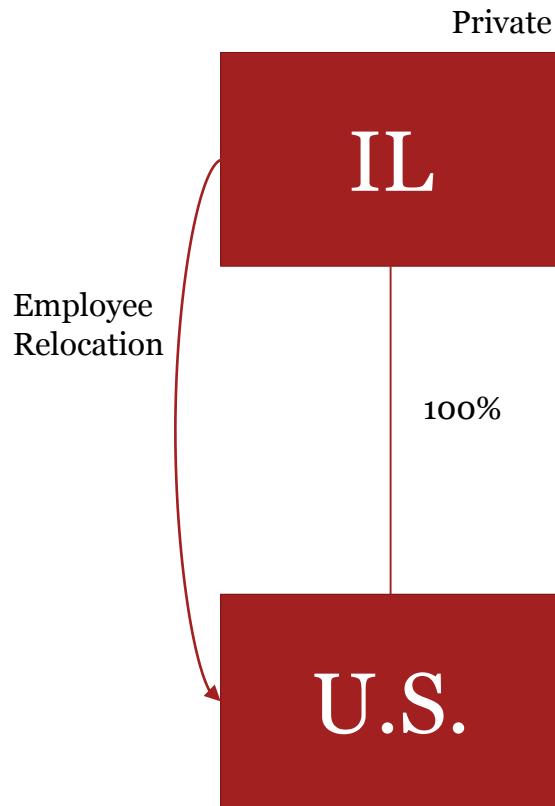
Section 409A – Requirements and Consequences



Global Mobility Issues

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Global Mobility

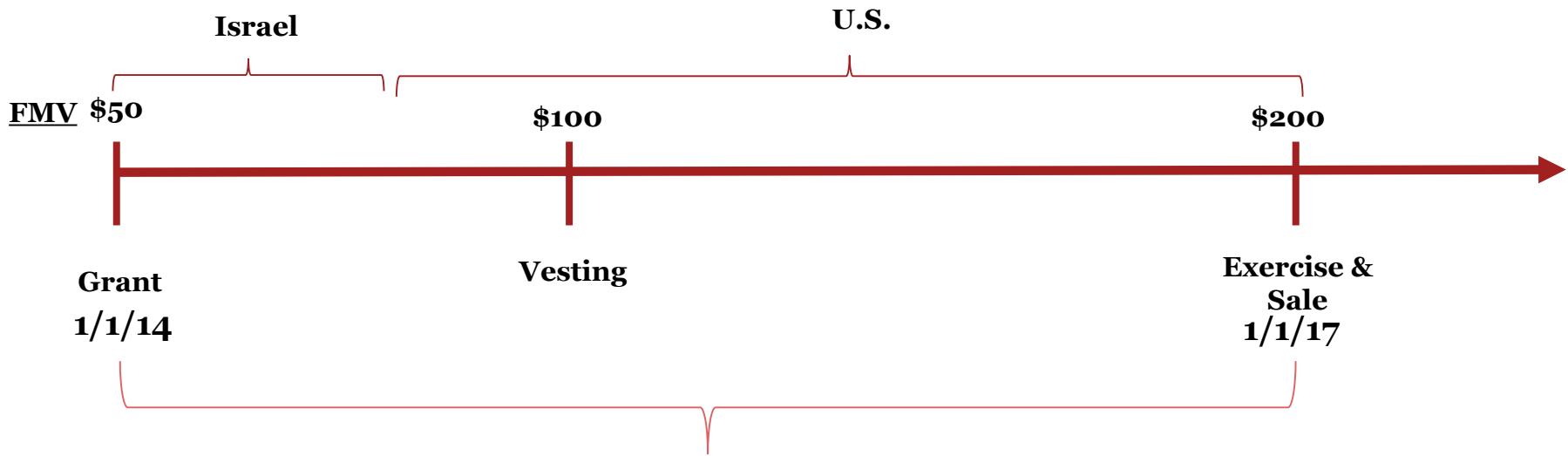


Assumptions:

- IL - grants ISOs
- IL - Trustee Capital Gain route (Sec. 102)
- Employee exercises options & sells the stocks on the same day
- Employee retains Israeli tax residency throughout relocation (under Israeli domestic law)

Global Mobility – Cont.

Scenario I – Disposition When Optionee is a U.S. Resident

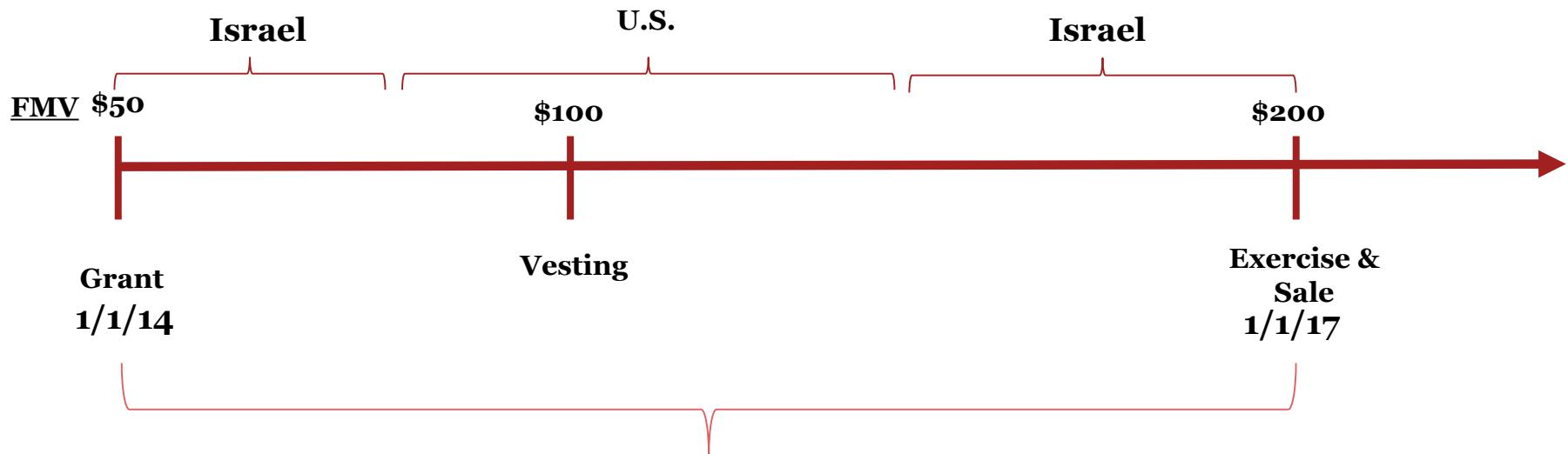


IL - Capital Gain = \$150 @25% + FTC on FSI

U.S. – Ordinary Income = \$150 @marginal tax rate + FTC on FSI

Global Mobility – Cont.

Scenario II – Disposition When Optionee is an Israeli Resident



IL - Capital Gain = \$150 @25% + FTC on FSI

U.S. – Ordinary Income on the portion of the U.S. source
income @marginal tax rate

Thank you!

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