

Granting RSUs... now what?

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Back to Basics: Restricted Stock Awards and Units

- Full value awards
 - Shares awarded at no cost to employees
 - Subject to vesting restrictions
 - Shares held in escrow until vesting date
 - Subject to forfeiture upon termination of employment
 - Never underwater (from employee's perspective)

Back to Basics: Restricted Stock Awards and Units

- Types of awards
 - Restricted stock
 - Shares issued (beneficial ownership) at grant
 - Typically entitled to voting and dividend rights
 - Stock released to employees at vest
 - Restricted stock units
 - Shares issued at release
 - May be entitled to dividend equivalents but not voting rights
 - Release typically (but not necessarily) tied to vesting

Accounting Treatment

- SFAS No. 123(R)
 - Measurement date is grant date
 - Determination of grant date under 123(R)
 - Fair value is equal to value of underlying stock
 - Expense is recorded over service period
 - Attribution based on estimated forfeiture rate (just as for stock options)

International Taxation Issues

- Lack of clarity in legislation
 - Especially for tax treatment of dividends prior to vesting
- Timing of taxation
 - **Restricted stock taxed at grant** for several locations
 - Restricted stock units generally taxed at vest
 - If release \neq vest, then need to look at country specific rules
 - Deferral rules vary by country
- To avoid taxation at grant companies with international plans tend to grant RSUs – we will focus on RSUs going forward

Point of Taxation

Country	Restricted Stock*	RSU*
Belgium	Vesting	Vesting
Canada	Grant (discount available) - no 50% exclusion from income	Vesting - no 50% exclusion from income
China	Vesting	Vesting
France	Grant, unless qualifying	Vesting, unless qualifying
Germany	Grant	Vesting
Hong Kong	Vesting	Vesting
Italy	Grant	Vesting
Japan	Grant	Vesting
Netherlands	Grant (discount available)	Vesting
Singapore	Vesting	Vesting
United Kingdom	Vesting, unless election	Vesting

* Assumes the shares are delivered on the vest date.
The information presented in the table above is only indicative of the potential taxation of a generic restricted stock /restricted stock unit plan in that location and should not be relied upon

Tax Payment Methods

- Corporate withholding obligations differ by country
- Shares
 - Withholding shares
 - Shares with value equal to tax payment are cancelled
 - May be returned to plan reserve
 - Cash outflow for company
 - Rounding issues
 - Sale of shares
 - Shares sold on open market and sale proceeds forwarded to company to cover taxes
 - Volume of sales can be a problem
 - Black-out periods
 - IRS deposit requirements
 - Employees must pay brokerage fee
 - Results in flow of shares into the market place
- Employee check
- Withhold from payroll

Tax Payment Methods

- Recommendations
 - Consider requiring share withholding or sale to cover taxes
 - If employees can elect a tax payment method
 - Distribute election notices in advance of vesting
 - Consider stipulating withholding or sale as default
 - Where employees elect cash, revert to default if cash isn't received
 - Typically should be included in the plan document

International Tax Withholding

- Net share withholding
 - To avoid liability accounting under FAS123R, must be at the “minimum statutory rate”. What is the minimum statutory rate?
 - Lowest tax rate for that location; or
 - Employee’s actual tax rate
 - Fractional shares
 - Consider asking local payrolls to calculate
 - Caution regarding estimated liability
 - Ask your auditor!
- Sale of shares
- Employee check
- Withhold from payroll

Discussion Items

- International Tax Withholding
 - Majority tax rate
 - Minimum tax rate
 - Individual tax rate

Discussion Items

- Employee Communications



Discussion Items

- Preparing for the first vest
 - Internal
 - External



Discussion Items

- Administration Challenges
 - LOAs
 - Death / Retirement
 - Dividends



Questions?

Thank you for your participation

