Net Unrealized Appreciation (NUA)

CAPITAL ADVISORS

Many of our clients work for publicly traded companies that award company stock within retirement plans. A topic that comes up frequently for these clients is the potential benefit of applying NUA as we roll assets out of a client's 401(k).

What is NUA?
An opportunity to roll company stock to a taxable account, instead of liquidating stock and moving it to an IRA.

Why consider it?
The cost basis of the stock can be extremely low in many situations. When applying NUA, a client is taxed at ordinary income rates only on the cost basis, while the remaining value is taxed at long-term capital gain rates.
Taxation upon transfer to taxable acct - the basis is immediately added to W-2 income.
Taxation upon disposing of stock – NUA portion of stock (Appreciation) is taxed at the client's long-term capital gain rate. **Note**: This is regardless of holding period. Tax on additional appreciation post transfer, will be based on length of holding period (Short vs. Long term).

When is NUA a potential value-add for the client?

1. There is an immediate or short term need for the funds after distribution
2. Client is in a high tax bracket
3. Client has large loss carryforwards in taxable accounts
4. Client must have sufficient after-tax assets to handle the tax ramifications

When it should be avoided?
1. Client is younger and has opportunity for continued tax-deferred growth
2. Cost basis of stock is near current market price
3. Client has a desire to diversify from company stock without need for income in the short term

Requirements to be eligible for NUA
1. Employer stock must be distributed in-kind from 401(k) plan to a taxable account
2. Lump sum distribution in 1 tax year – doesn't have to be all at once
3. Distribution after triggering event
    a. Death
    b. Disability
    c. Separation of service – if before 59½ may be subject to 10% penalty
    d. Reaching 59½

Other important notes:
- NUA selection does not have to be for all company stock within plan. Specific low-cost basis lots can be cherry picked.
- NUA portion of the gain will never receive a step-up in basis for inheritance purposes.
- NUA does involve components of tax advice. As such, we encourage clients to seek advice from a tax professional before proceeding with the distribution.

Please see important disclosures on the following page

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