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?

It is an opportunity to roll company stock to a taxable account, instead of liquidating stock and moving it to an IRA/Roth 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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