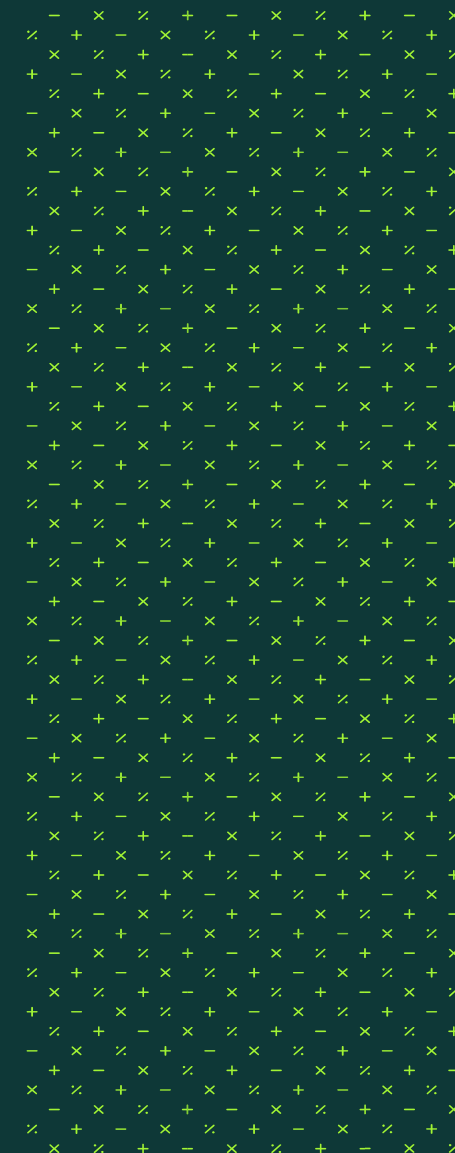




Residency Transition for Business Executives

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Presenters



Brian Steuber
Partner

brian.steuber@mossadams.com
(408) 558-3233



Jen Mosley, CPA
Senior Manager

jennifer.mosley@mossadams.com
(206) 302-6288



Chris Parker
Senior Manager

chris.parker@mossadams.com
(916) 503-8266

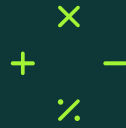


POLLING QUESTION #1

I'm attending today's presentation on residency transition because:

- A. Recent legislative changes have accelerated my interest in moving
- B. I have my bags packed and am in the process of moving
- C. I moved in the past 12 months and am wondering if I tied up all loose ends
- D. I have a potential taxable event on the horizon that I want to plan for
- E. I heard Jen and Chris were presenting





Agenda

01

RESIDENCY TRANSITION PLANNING

- Income tax
 - Equity compensation
- Other considerations
 - Estate planning
 - Non-tax reasons to move

02

RESIDENCY TRANSITION PROCESS



Why is planning so important?



Anything worth doing
is worth doing well



Being ready creates
and protects value

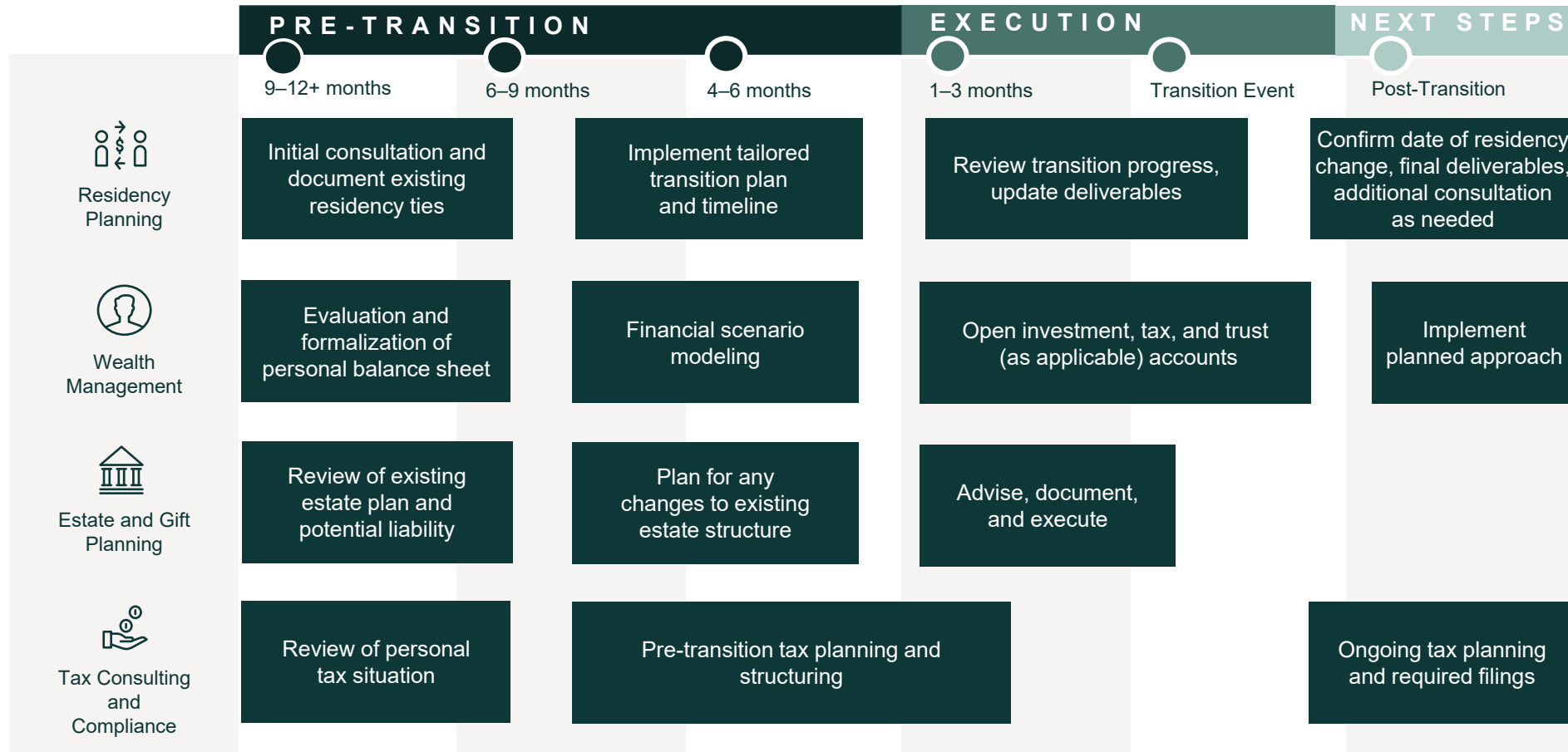
- *Estate and gift taxes*
- *Wealth management*
- *Tax reporting*



Audit risk



Make a Plan



Residency Transition Considerations

TRANSITION CONSIDERATIONS

- Quality of life and liquid asset needs
- Financial implications
- Estate planning: multigenerational and philanthropic
- Cost of doing business
- Potential sale of business or large liquidity event
- Business relocation or expansion
- Compensation sourcing: equity and other supplemental income

TIPS

- Communicate!
 - Residency transitions impact your company too
 - Investment strategy may need a change – Talk to your wealth manager
 - Engage your CPA in tax planning



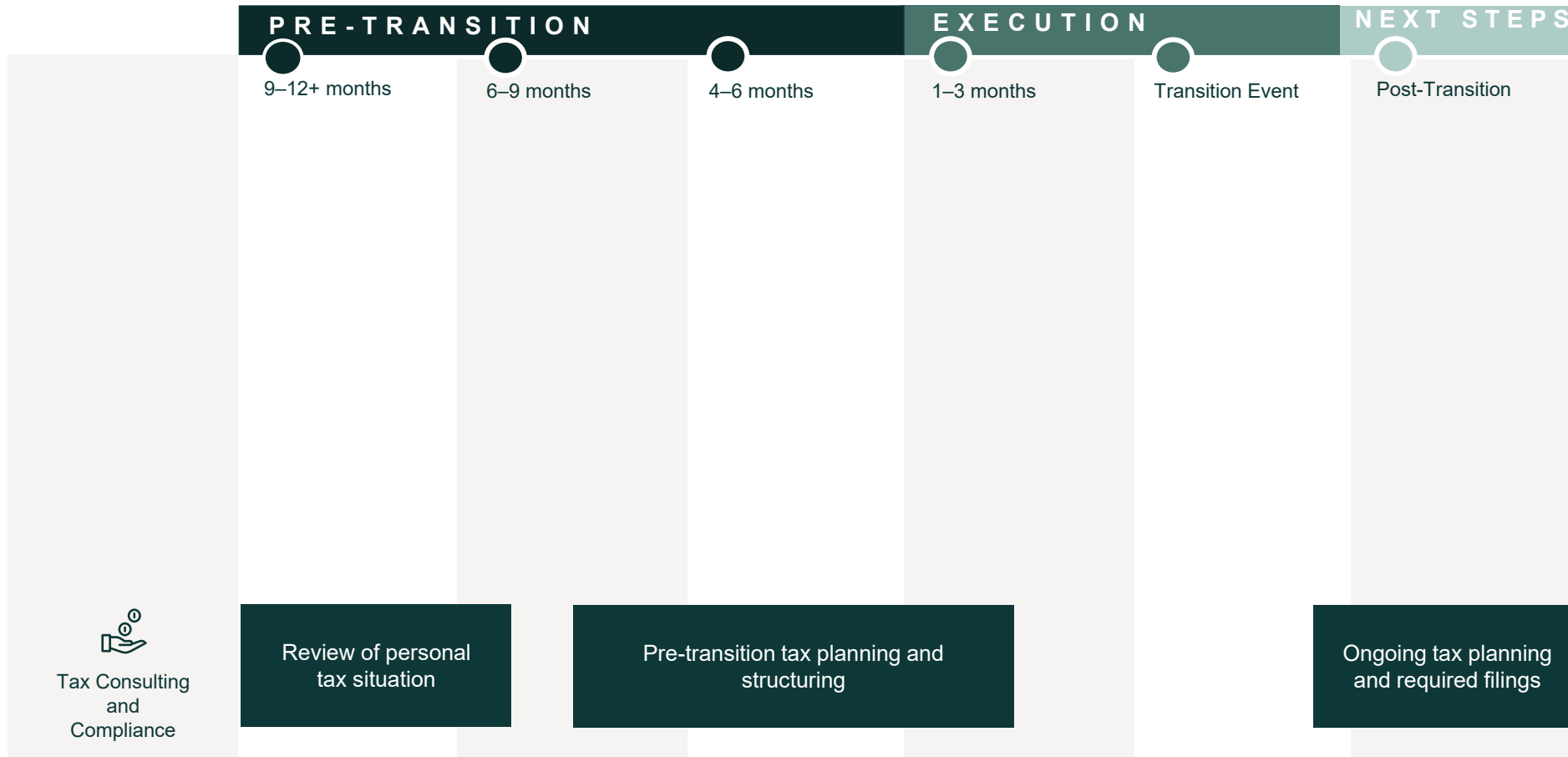
POLLING QUESTION #2

Where do you want to move?

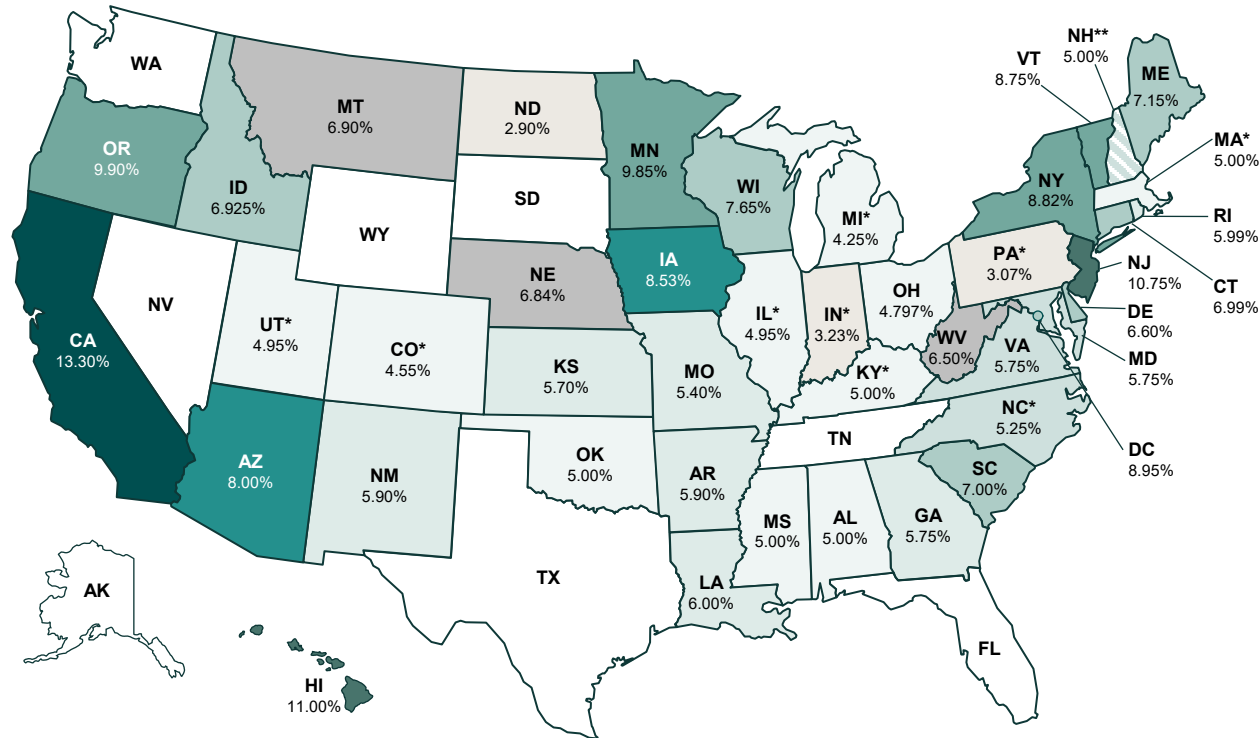
- A. Nevada
- B. Texas
- C. Florida
- D. Washington
- E. International
- F. Other (Mars perhaps)



Income Tax Planning Components



Individual Income Tax By State



Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

(*) State has a flat income tax.

(**) State only taxes interest and dividends income.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.



Equity Compensation Considerations

TAXATION CONSIDERATIONS

- Sourcing grants
 - Vary by state
- Character of income
 - ISO exercise and disposition
 - NQSO exercise and disposition
- Qualified small business stock (QSBS)
 - State conformity
 - Stacking strategies

Disqualifying Disposition = DD
Qualifying Disposition = QD

EXAMPLE

Date of Grant  → *Date of Exercise*  → *Date of Sale* 

FACTS

10,000 Shares of NQSO \$0.25 Strike Price
\$1.00 FMV at Exercise \$5.00 FMV at Sale

AT EXERCISE

- \$7,500 – Difference between Grant Price & FMV (“Spread”)
- \$2,500 – Exercise Cost

AT SALE

	NQSO	ISO DD	ISO QD
Ordinary Inc	0	\$7,500	0
Cost Basis	\$10,000	\$10,000	\$2,500
Proceeds	\$50,000	\$50,000	\$50,000
Gain	\$40,000	\$40,000	\$47,500



Equity Compensation Considerations (cont.)

TIMING & CASH FLOW CONSIDERATIONS

- Withholding (NQSO)
 - Federal
 - States
- Estimated taxes
 - Safe harbor (110% of PY Tax Liability)
 - Annualized
 - Estimated Actual
- Alternative Minimum Tax (AMT)

EXAMPLE

Date of Grant  → *Date of Exercise*  → *Date of Sale* 

PAYROLL WITHHOLDING AT EXERCISE (NQSO)

- 22% - Federal withholding (or 37% above \$1M)
- State(s) withholding, as applicable
- 7.65% - FICA/Medicare


TAXES AT EXERCISE

- 28% - Federal AMT Rate
- State AMT, as applicable

Total Cash Outlay = Taxes + Cost to Exercise

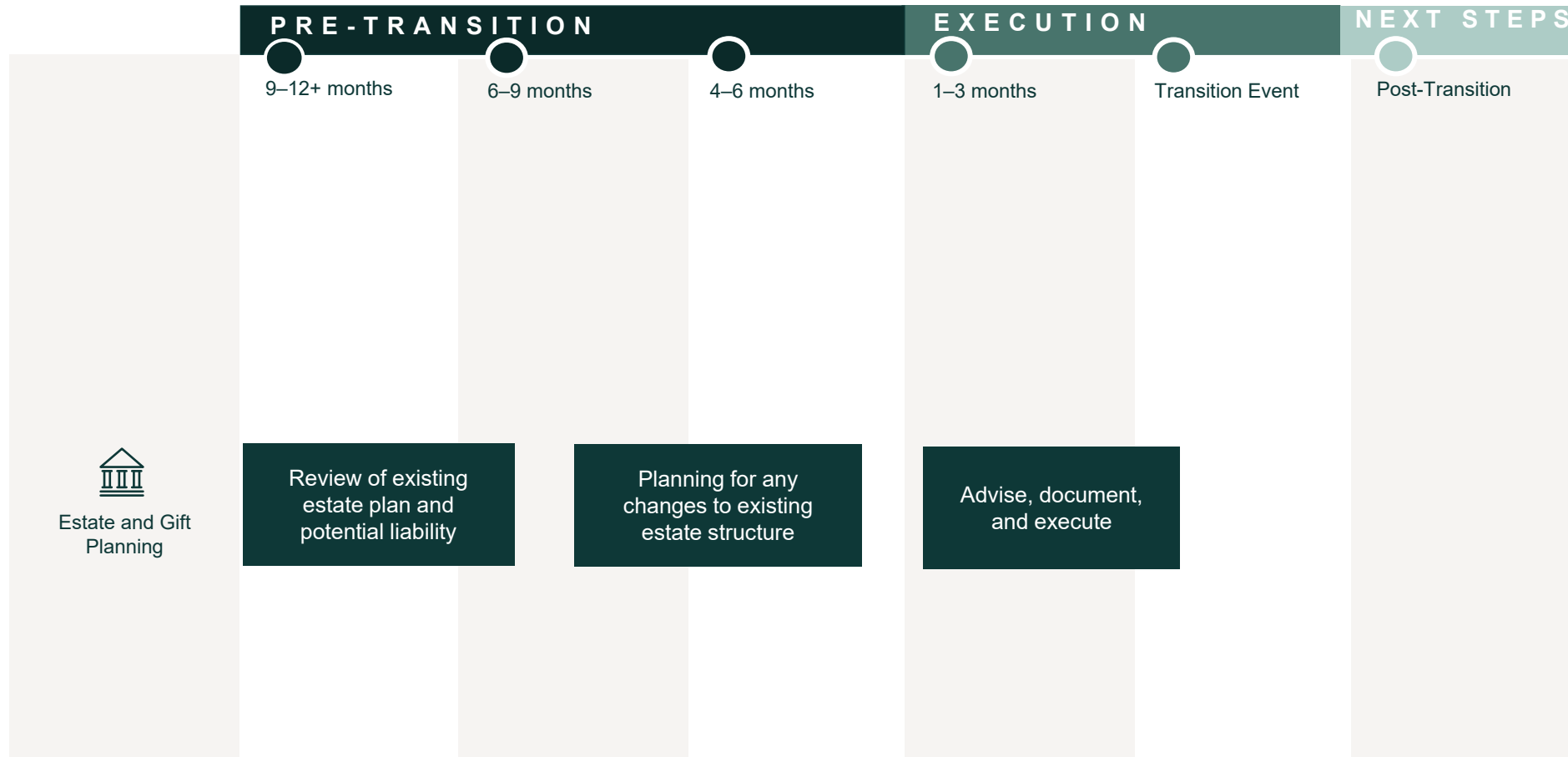


Alternative Minimum Tax (AMT)

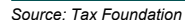
REGULAR TAX	AMT
Income	++(ISO)
- Deductions	
Taxable Income	\$73,600 or \$114,600 --> 0
x Rate	AMTI
= Regular Tax	x AMT Rate (28%)
	= AMT
Pay Larger Amount	



Estate and Tax Components



Source: Bloomberg Tax; state statutes



Estate & Wealth Transfer Planning

- Lifetime exemptions and annual exclusions
- Gifting
- Location of property
- How property is held
- Trust planning to avoid probate
- Location of beneficiaries, trustees & grantors at the time of gift



POLLING QUESTION #3

When was the last time you reviewed your estate plan?

- A. Within the last 6 months
- B. Within the last year
- C. Within the last 3 years
- D. Within the last 5 years
- E. Creating an estate plan is still on my to-do list



POLLING QUESTION #4

Have you been audited (or currently in an audit) before?

- A. Yes, by the IRS
- B. Yes, by a state or local tax authority
- C. Yes, by both the IRS and a state or local tax authority
- D. No, thank goodness
- E. Decline to answer



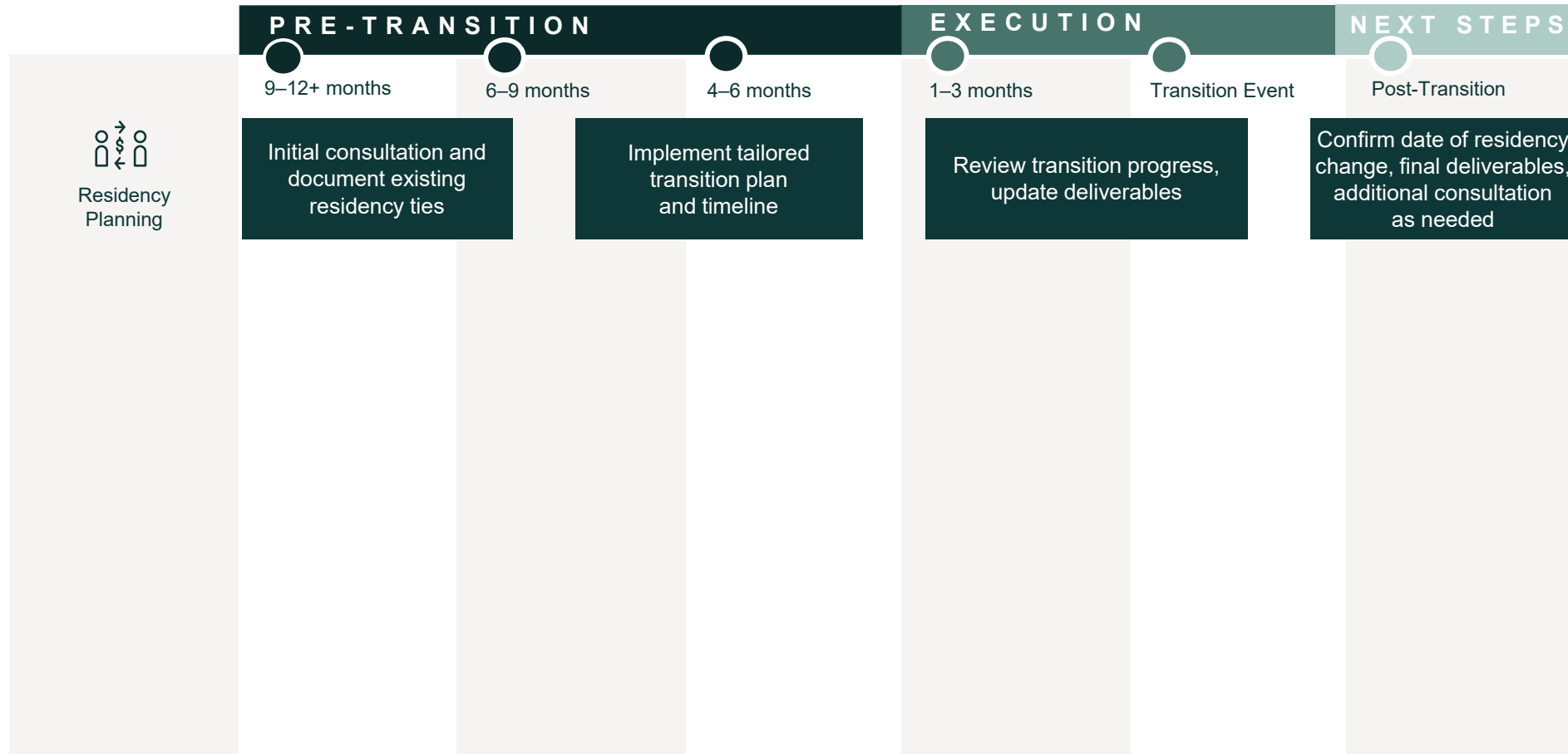
Next Steps

Remember, the earlier you plan, document, structure, and file, the greater your ability to create and protect value.

- Review your existing plan
- Consult with your team of advisors
- Make changes and document as necessary
- Live with peace of mind knowing you prepared adequately



Residency Component

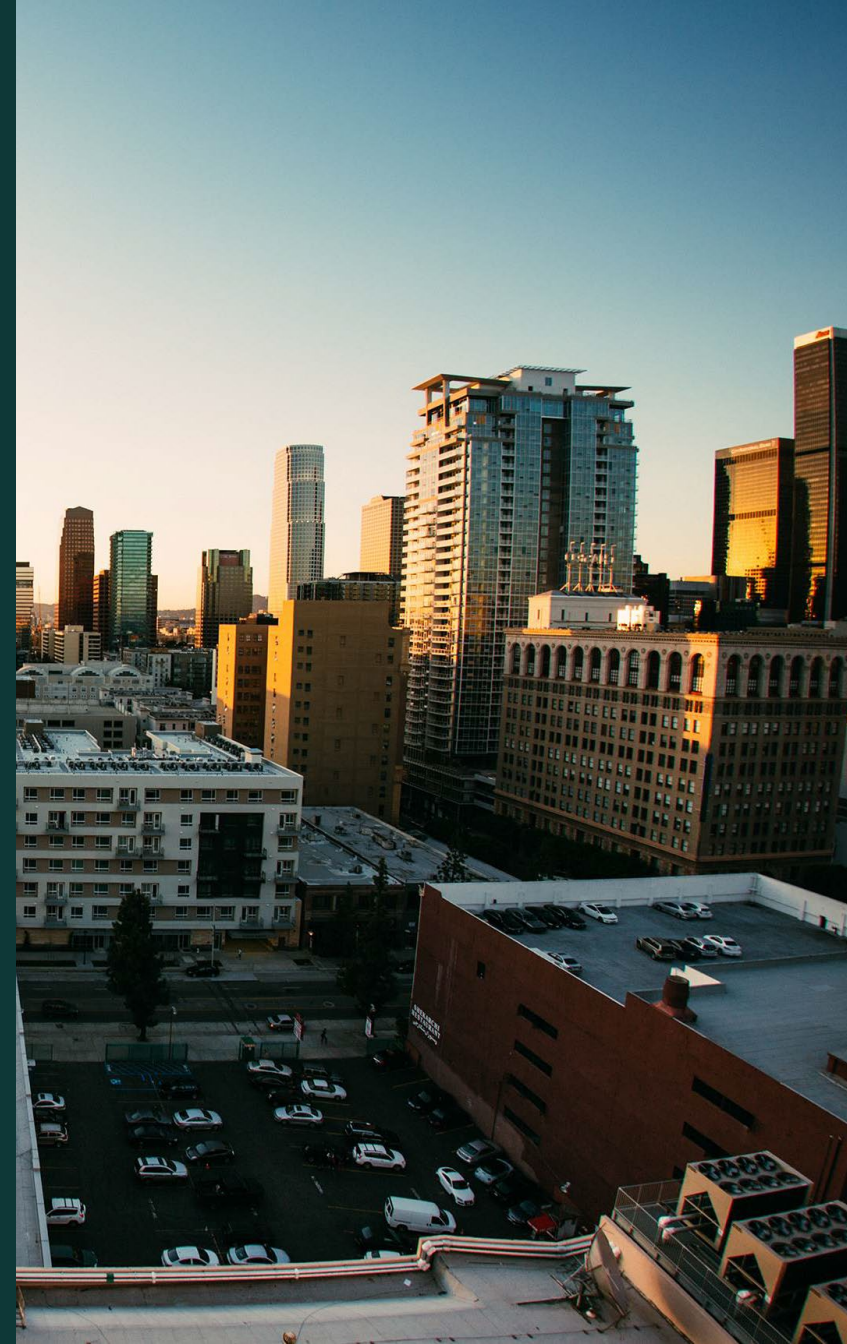


You Moved...Now What?

Statute of limitations

Documentation

Audit factors



Residency Audit

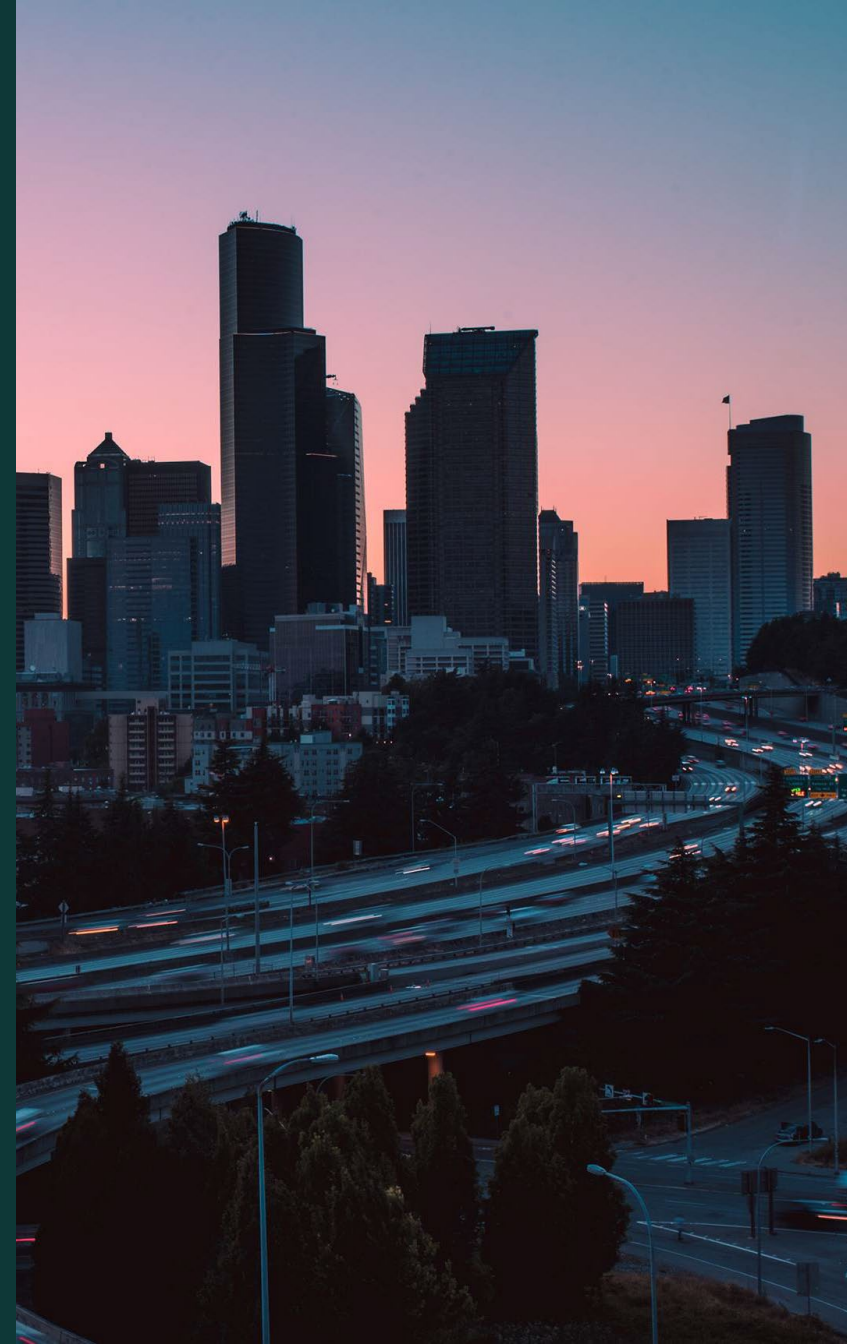
Intimate

Long

Preparation matters

Income sourcing

Potential outcomes



Questions? We're here to help.

brian.steuber@mossadams.com

jennifer.mosley@mossadams.com

chris.parker@mossadams.com



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