The NUA Strategy

Distributions of appreciated employer stock from a tax-qualified retirement plan account may be eligible for favorable tax treatment.

The so-called “net unrealized appreciation” (NUA) strategy requires taking a “qualifying” lump-sum distribution of employer stock from a qualified plan upon separation from service or another “triggering event” (such as attaining age 59½) and paying ordinary income taxes on only the plan’s cost basis in the stock. When the stock is sold, the difference between the basis and the fair market value at distribution is taxed at long-term capital gains rates regardless of how long the employer securities may have been held in the plan. Any further appreciation is taxed at either the short- or long-term capital gains rate, depending on the holding period.

An individual whose plan assets consist primarily of employer stock might want to use the NUA strategy for part of the distribution and roll over the remaining shares to an IRA. The IRA owner could then sell the shares and purchase other investments that provide more diversification.

Other considerations also apply. We would be happy to discuss your options.

What To Think About

Is the NUA strategy appropriate for you? Before you decide, consider the following:

Your time frame. Stock that won’t be sold for several years benefits most from the NUA strategy.

Your overall portfolio. Taxes aside, it’s important to own a portfolio that is adequately diversified.

Your estate plan. The NUA strategy may create unwanted tax consequences for your beneficiaries if the stock becomes part of your taxable estate.