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Ask the Experts: Net Unrealized Appreciation

In this article, we explain net unrealized appreciation.

Q: I work at a company that gives me stock as part of my retirement plan. A friend told me about NUA. How does that work?

Net unrealized appreciation (NUA) is a tax strategy that allows you to convert what would usually be considered ordinary income into long-term capital gains instead. Since income tax rates can go as high as 37 percent (plus applicable state income tax), but long-term capital gains tax is capped at 20 percent, this swap can make a big difference to your tax bill.

The strategy allows you to claim long-term capital gains on the difference between the current value of the company stock in your retirement plan and its price when it was originally acquired, also known as its *cost basis*.

One of the other advantages of this strategy is that you do not have to pay both types of tax—income tax and capital gains tax—at the same time. Although income tax will be due when you take your stock out of your company's retirement plan, the long-term capital gains tax on appreciation above the cost basis, known as net unrealized appreciation or NUA, does not happen until the appreciated stock is sold.

Of course, an NUA strategy won't be the right move for everyone. Your plan may not have the necessary features available, or you may not have a low enough cost basis. Also, NUA can only be done after certain triggering events, and you have to follow specific rules to capture the benefits.

As always, the best idea is to consult your financial advisor or tax professional. They can help you understand whether an NUA strategy is suitable for your circumstances and what next steps you'll need to take.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.