REFERENCE GUIDE

Retirement-Eligible FICA Taxation

Administrative Considerations and Collection Methodologies for Equity Compensation Programs

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Understanding Retirement-Eligible FICA Taxation

Retirement eligibility ("RE") creates a unique payroll tax event that many companies underestimate from both a compliance and administrative perspective. Some equity plans allow employees to keep unvested awards when they retire, rather than forfeiting them. Once an employee becomes eligible for this treatment, the IRS generally considers the awards vested for FICA tax purposes, even if the employee does not actually retire.

Why it matters

Organizations may be required to remit Social Security and Medicare taxes earlier than participants expect, creating operational, payroll, communication, and withholding complexities that often require coordination across stock administration, payroll, legal, tax, and finance teams.

Because RE provisions vary significantly by company and award design, organizations benefit from establishing a clearly documented and consistently applied process for identifying impacted participants, calculating tax obligations, and determining how taxes will ultimately be collected.

This document outlines key administrative considerations, timing requirements, and commonly used tax collection methodologies associated with retirement-eligible FICA taxation.

Key principle

When an employee has the ability to retire and retain unvested equity compensation that would have otherwise forfeited, FICA tax remittance is required, whether or not the employee actually retires.

FICA Tax Withholding Requirements

Upon retirement eligibility, the material risk of forfeiture no longer exists. FICA taxes for share-based grants are due within the calendar year that the participant becomes retirement eligible, and the timing of such payment is generally administered under the rule of administrative convenience outlined in IRS Announcement 85-113.

Under this approach, companies commonly delay FICA tax withholding until later in the calendar year, allowing organizations to:

- streamline administration,
- consolidate processing activity,
- reduce repeated payroll adjustments, and
- potentially minimize Social Security withholding exposure for participants who may have already reached the annual wage base limit.

Measurement dates

Following best practice, many companies process applicable transactions on a single measurement date. The measurement date is typically November 15 for all participants who became retirement eligible between January 1 and November 15, followed by a second measurement date on December 31 to capture participants who became eligible after November 15.

Why Administration Often Becomes Complex

Although the tax rules themselves may appear straightforward, the operational administration of retirement-eligible FICA taxation can become highly complex, particularly for organizations with large equity populations, multiple award types, global participants, or decentralized payroll processes.

Key challenges often include:

Identifying retirement-eligible participants

Organizations must maintain accurate tracking processes to determine when participants satisfy retirement eligibility criteria under applicable award agreements and plan provisions.

Coordinating across internal teams

Retirement-eligible taxation frequently requires collaboration between stock administration, payroll, accounting, tax, HR, legal, and external brokers or vendors. Misalignment between teams can create timing issues, incorrect withholding calculations, or delayed remittance.

Managing Section 16 considerations

Certain collection methods may create additional concerns for Section 16 officers, particularly when payroll deductions or participant-funded cash payments are involved.

Participant communication

Participants are often surprised to learn that payroll taxes may become due before shares vest or before any shares are delivered. As a result, proactive communication and clear education are critical to minimizing confusion and employee relations concerns.

Maintaining consistency

Because the IRS does not prescribe a single required methodology for share reductions or tax collection, companies must establish a consistent and defensible administrative approach across similarly situated participants.

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Permitted Tax Collection Methodologies

There are several methods permitted to collect taxes from participants who become retirement eligible. Organizations typically evaluate each approach based on administrative complexity, employee experience, payroll limitations, insider considerations, and overall operational efficiency.

METHOD 1: PAYROLL DEDUCTIONS

Not typically available for Section 16 or 1099-eligible participants

- Method can generally be used for all employees with the exception of Section 16 participants.
- For the general employee population, payroll deductions must typically be completed by December 31 of the applicable year in order to comply with tax remittance deadlines.

METHOD 2: WITHHOLDING SHARES FROM UNDERLYING AWARDS

- This method is commonly used by employers to reduce the financial impact to participants.
- Shares are often withheld from future vesting tranches, commonly the final vesting tranche.
- This approach may be utilized for both Section 16 officers and the general employee population with relatively limited cash flow impact to employees.

METHOD 3: CASH PAYMENTS

- Participants may fund a brokerage account or submit payment directly upon grant issuance or upon becoming retirement eligible.
- If cash payments are permitted for officers, organizations may need to collect the full FICA obligation in a lump sum.
- Companies should also evaluate timing considerations associated with check collection and IRS remittance obligations.

Choosing an approach

Organizations often select different collection methodologies depending on employee population, payroll capabilities, insider status, and administrative complexity. In some cases, companies may adopt a hybrid approach to balance compliance requirements, operational efficiency, and participant experience.

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Comparison of Tax Collection Methodologies

Below are common advantages and disadvantages associated with each collection methodology.

Tax Collection Method	Advantages	Disadvantages
Pay through payroll *(should be prohibited for Section 16 officers)*	• Relieves burden of collecting checks • All shares available at payout date • No over-withholding concerns • No determination of tranche vesting share reduction methodology required	• Possible lack of enough funds to cover taxes due • Impact on the participant's cash flow • Administrative burden of coordination with payroll
Share withholding *(withholding shares from the award)*	• Relieves burden of collecting checks and cash • Company has more control over timing of tax payment • Relieves the participant's burden of needing cash available	• Additional taxes triggered (based on award type): withholding shares at the RE/measurement date triggers additional federal income tax, which requires withholding additional shares • For graded vesting, the company must choose which tranche is reduced; the IRS does not dictate a method, so apply one consistently for all RE participants • Fewer shares available to earn dividend equivalents and benefit from potential increase in share value
Cash *(participant pays cash to cover RE taxation)*	• All shares available at payout date • No over-withholding concerns • No determination of tranche vesting share reduction methodology required	• Difficult to track and collect for large RE population • Timely payment required but not guaranteed from participant • Advance communication required • Possibility of lack of sufficient funds to cover taxes due

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Key Operational Considerations

When evaluating or implementing a retirement-eligible FICA tax process, organizations should consider establishing formal procedures in the following areas:



Governance and Policy

- Define retirement eligibility criteria clearly
- Establish documented procedures for tax collection
- Apply methodologies consistently across participant groups



Equity Administration

- Determine how share withholding reductions will be applied
- Establish treatment for graded vesting schedules
- Evaluate impact on dividend equivalents and future vesting events



Participant Communications

- Notify participants in advance of withholding events
- Explain why taxes may be due prior to vesting or settlement
- Provide clear expectations regarding collection methodology



Year-End Administration

- Coordinate year-end processing calendars early
- Validate participant data before measurement dates
- Review controls surrounding Section 16 participants and executive populations



Payroll and Tax Coordination

- Align payroll processing timelines with measurement dates
- Confirm payroll system capabilities
- Validate tax remittance timing requirements

Final Thoughts

Retirement-eligible FICA taxation requires more than technical tax compliance. The process often impacts payroll administration, equity operations, accounting, participant communications, and overall employee experience simultaneously.

Because retirement eligibility provisions and equity award structures vary across organizations, there is rarely a one-size-fits-all approach. Companies benefit from evaluating their administrative capabilities, participant population, and operational risks when determining the most appropriate collection methodology.

By establishing a clearly documented and consistently administered process, organizations can reduce operational risk, improve participant experience, and support timely compliance with applicable payroll tax obligations.

Infinite Equity partners with organizations to help navigate the operational, administrative, and technical complexities associated with equity compensation programs, including retirement-eligible taxation, payroll coordination, participant communications, and stock plan administration. Whether evaluating an existing process or building a more scalable framework, organizations benefit from experienced guidance that aligns compliance requirements with practical execution.

ABOUT INFINITE EQUITY

Founded in 2019, Infinite Equity is a leader in its field, providing professional advice and technology-enabled solutions that allow businesses to create and support a prosperous ownership culture. Infinite Equity is known for its success in assisting companies to increase the effectiveness and return of their equity programs, believing that equity compensation drives performance and fuels success. To learn more about Infinite Equity's employee ownership solutions, visit infiniteequity.com.