MARINER

The hidden tax traps of success:

Bonuses, RSUs and deferred compensation

A promotion, bonus or equity award can be welcome news. It can also make your tax situation harder to predict.

Key takeaways

- A promotion, bonus or equity award can move you into a higher tax bracket and create a gap between the taxes withheld from your compensation and what you ultimately owe.
- Higher wages may trigger the Additional Medicare Tax, while an increase in overall income may cause investment income to become subject to the net investment income tax.
- Reviewing your projected income and withholding before year-end can help you prepare for an additional payment and reduce the risk of an underpayment penalty.

Unlike a salary that is paid consistently throughout the year, bonuses, restricted stock units (RSUs) and deferred compensation can affect your income in larger or less frequent increments. Even when taxes are withheld, the amount may not reflect your ultimate tax liability.

Understanding how each form of compensation is taxed can help you plan before an award vests, a bonus is paid or a year-end deadline arrives.

Why can a bonus or a raise cause an unexpected tax bill?

Even though taxes are withheld from a bonus, the amount withheld may not fully reflect your final tax bill.

When supplemental wages are paid separately from regular wages, employers may use a flat 22% federal withholding rate for payments up to $1 million.[1] If your marginal federal tax rate is higher, that withholding may leave a gap at tax time.

A raise or promotion can create the same issue, because withholding elections often remain based on earlier pay levels while income continues to rise throughout the year. The gap can widen when bonuses, investment gains, equity compensation or a spouse's earnings are added to the picture.

Depending on the size of the gap, you may need to increase your overall withholding or make an estimated tax payment to avoid an unexpected balance due or potential underpayment penalty.

How are RSUs taxed when they vest?

RSUs are generally treated as wages when they vest. When they vest and are settled, often at the same time, the value of the shares or cash is typically subject to federal income tax withholding as well as Social Security and Medicare taxes.

Many employers withhold or sell a portion of the vested shares to cover taxes. However, the amount withheld may not cover your full liability, particularly if the award pushes more of your income into a higher tax bracket.

As your compensation increases—whether through a raise, bonus, RSU vesting or other forms of compensation—you may also become subject to additional payroll taxes. One of the most common is the Additional Medicare Tax.

When does the Additional Medicare Tax apply?

An employer must begin withholding the tax once the wages it pays an employee exceed $200,000 during the calendar year, regardless of the employee's filing status.

The 0.9% Additional Medicare Tax applies to Medicare wages, compensation and self-employment income above the threshold for your filing status:

- $200,000 for single filers and most other individual filers
- $250,000 for married couples filing jointly
- $125,000 for married individuals filing separately

This can also create a withholding gap for married couples. For example, each spouse could earn less than $200,000, meaning neither employer is required to withhold the additional tax. If their combined wages exceed $250,000, the couple may still owe it when they file.

Can higher compensation trigger the net investment income tax?

Higher compensation can indirectly cause investment income to become subject to the 3.8% net investment income tax (NIIT).

Wages, bonuses and RSU income are not themselves net investment income. However, they increase your modified adjusted gross income. NIIT may apply once modified adjusted gross income exceeds:

- $200,000 for single and head-of-household filers
- $250,000 for married couples filing jointly
- $125,000 for married individuals filing separately[2]

The tax generally applies to the lesser of your net investment income or the amount by which your modified adjusted gross income exceeds the applicable threshold.

As a result, a raise, bonus or RSU vest could cause interest, dividends, capital gains or other investment income to become subject to NIIT.

What should you consider before deferring compensation?

Unlike bonuses and RSUs, deferred compensation may provide an opportunity to voluntarily shift taxable income into a future year. Whether doing so makes sense depends on your expected future tax bracket, retirement plans, cash-flow needs and the plan's distribution rules.

A nonqualified deferred compensation arrangements are governed by detailed rules covering when deferral elections must be made and when payments can occur. It's important to consider more than the potential current-year tax effect. Review the plan's distribution schedule, your anticipated needs and how much of your income and wealth already depend on your employer.

Because these elections may limit your ability to access or reschedule the income later, it can be helpful to evaluate the decision within your broader financial plan.

How can you prepare before year-end?

Begin by estimating your total income for the year. Include salary, bonuses, expected RSU vesting, deferred compensation elections, investment income and your spouse's earnings, when applicable.

Compare your projected tax liability with the anticipated federal taxes withheld. Depending on the result, you may be able to increase withholding from a remaining paycheck or make an estimated tax payment.

Federal income taxes generally must be paid throughout the year. If you don't pay enough by the applicable deadline, an underpayment penalty may apply. For income received during the final payment period of 2026, the fourth estimated tax payment is generally due Jan. 15, 2027.

Build tax planning into your compensation decisions

As your compensation becomes more complex, decisions involving taxes, investments and cash flow become increasingly important. Reviewing bonuses, equity awards, deferred compensation elections and withholding before year-end can help reduce surprises and create additional planning opportunities.

Your advisor can work with your tax professional to help you evaluate upcoming compensation, identify potential withholding gaps and consider how each decision fits into your broader financial plan.

For more information visit: **mariner.com**

[1]Internal Revenue Service, *Publication 15 (2026), Employer's Tax Guide*

[2]Internal Revenue Service, "Net Investment Income Tax"