

The RSU Withholding Gap: Why Your Vested Shares Leave You Owning Tax

Your RSUs vested, your employer withheld tax, and you still owe five figures in April. This is not a mistake — it is the predictable result of a withholding rule that under-collects for high earners, and it is entirely plannable.

Few tax surprises are as common, or as avoidable, as the RSU balance due. An executive watches shares vest, sees a chunk automatically sold or withheld “for taxes,” and reasonably assumes the tax is handled. Then the return is prepared and there is a large amount owed on income that already had tax taken out of it. The reaction is almost always the same: *how do I owe more when they already withheld?*

The answer is a mismatch between how RSUs are withheld and how they are actually taxed — a gap built into the rules that widens precisely as your income rises. Understanding it is the difference between a planned set-aside and an April scramble.

How RSUs are taxed — the part that works

When RSUs vest, the full market value of the shares becomes **ordinary compensation income**, reported on your W-2 exactly like salary. There is no favorable rate and no deferral: vesting is the taxable event, whether or not you sell. If you later sell the shares, only the gain or loss *after* vesting is a capital item; the vesting value itself was already taxed as wages.

That part is straightforward. The problem is not how RSUs are taxed — it is how they are *withheld*.

The 22% trap

RSU vesting is treated as **supplemental wages**, and employers are permitted to withhold federal tax on supplemental wages at a flat **22% rate** (up to \$1 million of supplemental wages in a year; 37% above that). For most executives receiving meaningful RSU grants, 22% is far below their actual marginal rate.

WHERE THE GAP COMES FROM

If your marginal federal rate is 35% but your RSUs are withheld at 22%, every dollar of vesting income is under-withheld by **13 cents**. On \$200,000 of RSU vesting, that is a **\$26,000 federal shortfall** — before California, before NIIT, before anything else. The withholding looked substantial; it simply was not enough.

This is the entire mechanism. The shares that were sold or withheld at vesting covered 22%; your bracket demands 32%, 35%, or 37%. The difference does not disappear — it waits for you on the tax return.

California widens it further

California treats RSU vesting as supplemental wages too, with its own flat state withholding rate that is likewise often below a high earner's actual California marginal rate. So the same executive faces two stacked shortfalls — federal and state — on the same vesting event. In a high-tax state, the combined gap between what was withheld and what is owed can be substantial on a large grant.

AND THEN THERE IS NIIT

If you sell vested shares at a gain and your income is high, the **3.8% Net Investment Income Tax** applies to that gain once your modified AGI exceeds \$250,000 (married filing jointly) or \$200,000 (single). It is not withheld at all — another quiet addition to the April number.

Closing the gap before April

THE MOVES THAT TURN A SURPRISE INTO A SET-ASIDE

None of this is a reason to fear RSUs — they are cash-equivalent compensation. It is a reason to plan for the true tax rather than trusting the default withholding. The tools are simple once you know the gap exists.

Calculate the real rate, then set aside the difference

The moment RSUs vest, the true tax is knowable: your marginal federal and California rate on the vesting value, minus what was withheld. Setting that difference aside — or better, paying it in as an estimated payment — converts the April surprise into a non-event.

Make quarterly estimated payments

The under-withheld amount is not just owed — if large enough, it triggers an **underpayment penalty** that functions as non-deductible interest. Paying the shortfall through federal and California estimated payments in the right quarter avoids both the penalty and the year-end shock.

Adjust your W-4 to make up the difference

For predictable, recurring RSU vesting, you can request additional withholding on your regular paychecks via Form W-4 — effectively self-correcting the 22% shortfall through payroll rather than writing a check each quarter.

Decide whether to sell at vest

Selling RSUs immediately at vesting locks in the value already taxed and avoids adding to a concentrated position — and because there is little or no additional gain, it creates little additional tax. Holding is a separate investment decision with its own tax consequences. Conflating “should I hold?” with “how do I cover the tax?” is a common and costly error.

Coordinate with everything else in your year

RSU income stacks on salary, bonus, ISO exercises, and a spouse's wages to determine your actual marginal rate — which is what governs the true tax. The withholding gap can only be sized correctly against the full-year picture, not the vesting event alone.

THE MENTAL MODEL THAT FIXES IT

Treat the 22% withholding as a *deposit*, not the tax. The tax is your real marginal rate on the vesting value. The difference is yours to pay — on your schedule, if you plan, or all at once in April, if you don't.

How I work with executives on RSU planning

RSU planning is mostly a matter of getting ahead of a knowable number. I calculate your true combined federal and California rate on each vesting event, compare it to what your employer withholds, and build the estimated-payment or W-4 adjustment that closes the gap on your timeline — while coordinating the

sell-versus-hold decision, the NIIT exposure, and the interaction with the rest of your equity and income. The result is that vesting stops producing surprises and becomes just another planned, funded part of your tax year.

If your RSUs have been leaving you with an unexpected balance due, that pattern is fixable — and the fix starts before the next vest, not after the next return.

This article is educational and reflects federal and California rules for the 2026 tax year, including the 22% federal supplemental withholding rate (37% above \$1,000,000 of supplemental wages) and the 3.8% NIIT thresholds (\$250,000 MFJ / \$200,000 single MAGI). Figures in examples are illustrative. State withholding rates and individual outcomes vary; nothing here is tax advice for your situation. Please consult a qualified CPA regarding your equity compensation.

Natalie C. Papagni, CPA · Tax, Planning & Advisory Services

PRECISION. CLARITY. FOUNDATION.

Tax, Planning & Advisory Services | La Jolla, California

4275 Executive Square, Suite 200, La Jolla, CA 92037

(858) 754-8277 | service@lajollataxcpa.com | lajollataxcpa.com