EXECUTIVES WITH EQUITY COMPENSATION

Sitting on a Concentrated Stock Position? How to Diversify Without a Tax Disaster

Years of equity compensation have left much of your net worth in a single company's stock. Selling to diversify is prudent — but done carelessly, the tax bill can be brutal. Done deliberately, the same unwind can be spread, softened, and in places avoided entirely.

It is one of the most common situations among senior executives and long-tenured employees at successful companies: RSUs vested, options exercised, an ESPP quietly compounded, and a decade later a large share of the family's wealth rides on one ticker. The concentration risk is obvious — a single company's stumble could reshape your retirement. The instinct to diversify is right. What stops most people is the tax.

Selling appreciated stock realizes capital gains, and on a large low-basis position that gain can be enormous. But "sell it all and pay the tax" and "never sell because of the tax" are both mistakes. Between them sits a set of tools that let you reduce the position deliberately while managing — and sometimes eliminating — the tax cost. Here is how the unwind is actually engineered.

First, size the real cost of selling

Before choosing a strategy, you have to know what a sale actually costs. For long-term holdings (shares held more than a year), the federal rate is 0%, 15%, or 20% depending on your income — and for an executive with a large position, the gain itself pushes you into the top band.

> **THE 2026 RATE STACK FOR A LARGE GAIN**
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> A high-income executive selling long-term stock generally faces the **20%** federal capital gains rate (it applies above $613,700 of taxable income married filing jointly / $545,500 single for 2026), plus the **3.8% NIIT** — a **23.8% federal rate**. Then California taxes the same gain as *ordinary income*, at rates reaching **13.3%**. The combined marginal rate on a large California gain can approach **37%** before you have done any planning.

That number is why unwinding a concentrated position feels paralyzing — and why the strategies below, each of which chips at a different part of that stack, are worth the effort.

The core tool: sell deliberately, across years

The simplest and most powerful lever is **staging the sale**. Because capital gains rates step up with income, selling a concentrated position gradually — harvesting a planned amount of gain each year rather than all at once — can keep more of the gain in lower rate bands and below the thresholds that trigger the top rate and the full NIIT. A multi-year unwind trades a little market risk (you stay partly concentrated longer) for a materially lower tax rate on the whole position.

> **FILL THE BRACKET, DON'T OVERFLOW IT**
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> Each year has "room" — an amount of gain you can realize before crossing into the 20% band or spiking NIIT. Selling to fill that room, year after year, is the disciplined core of tax-aware diversification. It is unglamorous and it works.

10b5-1 plans: selling while you hold inside information

For executives and insiders, there is a second problem beyond tax: trading windows and material non-public information. A **Rule 10b5-1 plan** is a pre-arranged, written selling schedule adopted while you are *not* in possession of inside information. Once in place, it sells on autopilot according to its terms — letting you diversify steadily and defensibly even through blackout periods, and pairing naturally with a multi-year staged unwind.

The strategies that reduce — or erase — the gain

BEYOND SIMPLY SELLING

Staging manages the rate. These tools attack the gain itself.

Give appreciated shares instead of cash

Donating long-term appreciated stock to charity — directly, or through a donor-advised fund — generally yields a deduction for the full fair market value *and* avoids the capital gains tax entirely on the donated shares. For the charitably inclined, this is one of the few ways to move a low-basis position without ever paying the gain, and it can be concentrated into high-income years for maximum deduction value.

Gift shares to family in lower brackets

Gifting appreciated shares to family members (within annual and lifetime gift limits) can shift future gains to someone in a lower capital gains bracket — potentially the 0% or 15% rate — and remove the appreciation from your estate. The recipient takes your basis, so the planning is about *who* ultimately realizes the gain and at what rate.

Harvest losses to offset the gains

Losses elsewhere in your portfolio — or deliberately harvested — offset the capital gains from selling your concentrated position dollar for dollar. Pairing a planned unwind with systematic loss harvesting can meaningfully reduce the net taxable gain in any given year.

Exchange funds (for very large positions)

An exchange fund lets an investor contribute a concentrated position into a pooled vehicle in exchange for a diversified interest, deferring the gain. These are illiquid, carry long lock-ups and fees, and suit only specific situations — but for a very large, very low-basis position they are a tool worth knowing exists.

Mind the step-up — but don't be ruled by it

Assets held until death currently receive a basis step-up, erasing the built-in gain for heirs. That is a real consideration in the oldest, lowest-basis lots — but concentration risk is also real, and "hold forever for the step-up" is a bet on both the stock and your timeline. The two have to be weighed, not assumed.

> THE QSBS QUESTION, IF THE STOCK QUALIFIES
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> If your shares are qualified small business stock (§1202) — original-issue stock in a qualifying C-corporation held long enough — a substantial portion of the gain may be **excluded from federal tax entirely**. It is fact-specific and often overlooked, and it is worth checking before you assume a sale is fully taxable. California, notably, does not conform, so the state gain remains.

How I work with executives on diversification

Unwinding a concentrated position is a multi-year engineering problem, not a single trade. I start by sizing the true combined federal, NIIT, and California cost of your position, then build a staged selling plan — often paired with a 10b5-1 schedule — that fills each year's lower-rate room deliberately. Where they fit, I layer in charitable gifting, family gifting, loss harvesting, and any QSBS or step-up considerations, so the unwind captures every available reduction rather than paying the full 37% by default.

The goal is to get you diversified on a sensible timeline while paying the least tax the law allows — turning a position that feels too expensive to touch into a planned, orderly, tax-aware transition.

This article is educational and reflects federal and California rules for the 2026 tax year, including long-term capital gains rates (20% above $613,700 MFJ / $545,500 single taxable income), the 3.8% NIIT ($250,000 MFJ / $200,000 single MAGI), and California's taxation of capital gains as ordinary income (top rate 13.3%). California does not conform to the federal QSBS §1202 exclusion. Figures are general and examples illustrative. Charitable, gifting, and securities strategies carry non-tax considerations and legal requirements; nothing here is tax, legal, or investment advice for your situation. Please consult a qualified CPA and, where relevant, legal and investment counsel before acting.

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