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Bonuses : Regulation and Taxation in the United States

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Bonuses, additional compensation often perceived as a reward for performance, are a key tool for motivating and retaining talent in the United States. Their allocation is governed by regulations aimed at ensuring fairness, transparency, and alignment with the long-term goals of companies. These rules, although varying by sector, share common principles: avoiding excess, limiting excessive risk-taking, and ensuring responsible compensation. This article explores the regulations, tax implications, and strategies for optimizing bonuses, shedding light on the challenges and opportunities they present.

Cash Bonus and Stock Bonus: Optimization and Tax Implications

The different types of bonuses are numerous and vary by industry. However, they generally take the form of cash bonuses and stock bonuses. The cash bonus, paid in cash, is immediately taxable, with a federal rate that can reach 37%, in addition to state and local taxes. Employers often withhold 22% at the federal level for bonuses under \$1 million.

The stock bonus, in the form of shares or options, is more complex. Taxation depends on when the shares are acquired or sold. Short-term gains (less than one year) are taxed as ordinary income, while long-term gains benefit from reduced rates. To optimize stock bonuses, proactive management is essential: anticipate taxation by planning the sale of shares, use tax services, maximize after-tax returns through retirement plans (401(k), IRA), and defer compensation to avoid excessive taxation at retirement.

These two forms of bonuses, although different in structure, share common tax challenges. Employees can mitigate the tax impact by using strategies such as tax deferral or donating a portion of the bonus to charitable organizations, thereby aligning their personal interests with long-term goals.

Active Management Strategy: Tax Loss Harvesting and Tax Minimization

A potentially effective strategy for stock bonus holders is to concentrate their positions on high-value stocks while gradually recycling these gains into Tax Loss Harvesting operations. This approach allows offsetting taxable gains with losses realized on other investments, thereby helping reduce the long-term tax impact. By carefully planning cash withdrawals, this method helps minimize accumulated taxes while maintaining a balanced and high-performing portfolio.

Regulation and Taxation: A Delicate Balance

Regulation and taxation of bonuses are intrinsically linked. Regulators seek to limit excesses and promote a culture of responsibility, while the tax system imposes a significant burden on this income. For example, deferred bonuses and clawback provisions, although beneficial for financial stability, can be perceived as a constraint by employees. The high taxation of bonuses may incentivize talent to seek opportunities in sectors or countries where taxation is more favorable. This tension between regulation, taxation, and attractiveness raises questions about the balance to be struck to maintain both performance and ethics.

Conclusion: Bonuses, a Universal Tool with Common Challenges

Bonuses are a universal tool for motivating and rewarding employees, but their structure, regulation, and taxation vary significantly by sector. Whether in the form of cash bonuses or stock bonuses, bonuses must be carefully designed to avoid abuse and ensure alignment of interests.

In the United States, where bonuses can represent a significant portion of compensation, understanding the rules and tax implications is essential for both employees and employers. In an ever-changing environment, companies must continually adapt their bonus policies to remain competitive and responsible, while meeting the expectations of regulators and employees. Proactive management, particularly for stock bonuses, allows maximizing their value while complying with tax and regulatory obligations.

Consulting a wealth management advisor can be an excellent option to optimize the taxation of bonuses, anticipate long-term implications, and maximize the net value of this compensation.



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