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SERIES OF 2022

ADVISORY ON INCOME TAX TREATMENT OF EQUITY-BASED COMPENSATION

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BUREAU OF INTERNAL REVENUE

REVENUE REGULATIONS

NO. 13-2022

Income Tax Treatment of Equity-Based Compensation

COVERAGE AND TAX TREATMENT

Q1: What is Equity-based compensation?

A1: It covers all types of employee equity schemes that come in different forms such as stock options, restricted stock units, stock appreciation rights, and restricted share awards.

Q2: What is the common feature of equity-based compensation?

A2: It is being granted to existing employees of the grantor as a performance incentive for services rendered by the employees and are typically dependent on performance, outstanding business achievements and exemplary organizational, technical or business accomplishments.

Q3: What are the different kinds of Equity-based compensation?

A3:

Kinds of Equity-based Compensation	Definition
A. Stock options	Stock options merely entitle the employee to purchase shares at a future date. Thus, unless the options are exercised, the employees do not become shareholders. The period between the grant of stock options and the date when they become exercisable represents the vesting period.
B. Restricted share awards	The awards may or may not be subject to a vesting period, as may be specified in the grant. If subject to a vesting period, any unvested shares shall be forfeited if employment is terminated.
C. Stock Appreciation Rights (SARs)	The terms and conditions are similar to stock options. However, under the SARS, the optionee may receive (a) shares, (b) cash, or (c) a combination of shares and cash, as determined by the grantor.

Kinds of Equity-based Compensation	Definition
D. Restricted Stock Units	As with restricted shares, stock units may or may not be subject to a vesting period, as will be specified in the grant. Settlement of vested stock units may be made in the form of (a)shares, (b) cash, or (c) a combination of shares and cash.

Q4: What is the income tax treatment of the equity grants to the grantee-employees?

A4: The equity grants under the equity plans, once exercised or availed of by the grantee-employees, are considered compensation to be taxed under Section 32 of the NIRC of 1997, as amended, and implemented by RR No. 2-98, as amended.

This rule will be applied regardless of the employment status of the grantee-employee who could either be rank-and-file or occupying a supervisory or managerial position, as the law applicable do not make any distinction.

Source:
Revenue Regulations 13-2022