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FREE GUIDE · Equity

Vesting Across Borders

Why an option or share award earned in one country and sold in another is split between them, and how the split is actually calculated.

Equity compensation across borders: where the gain is taxed

Equity is earned over a period and taxed at a moment. When the earning period spans two countries, both may tax part of the same award — and because each applies its own timing rule, the two taxable moments may not even be the same day.

Who this is for

- Employees who moved country while holding options or restricted share units.
- Founders and executives with awards earned across more than one jurisdiction.
- Employers whose mobile population holds equity and whose payroll has to withhold on it.

Two questions: when, and where

The timing question is which event is taxable — grant, vest, exercise, or sale. Systems differ, and the difference is the source of most cross-border equity problems. One country may tax the spread at exercise as employment income while another taxes value at vest; a third may tax at grant in defined circumstances. Where the two countries pick different moments, relief mechanisms designed for the same-moment case work badly.

The sourcing question is how much of the award belongs to each country. The general approach is to look at the period the award was earned over — commonly grant to vest — and apportion by where the employee worked during it, usually by workdays. That means the answer depends on day records for a period that may have ended years before the taxable event.

How the instruments differ

Share options give a right to acquire shares at a price. Many systems tax the benefit at exercise, measured as the difference between market value and exercise price, as employment income, with any further movement to sale treated as a capital gain. Some systems have preferential regimes for qualifying plans that change both the timing and the character.

Restricted share units are a promise of shares, generally taxed as employment income when they vest and settle, on the value delivered. Because there is no exercise decision, the employee has less control over the timing and the tax often arises when shares are delivered rather than sold — which is why sell-to-cover arrangements exist.

Employee share purchase plans, phantom units and appreciation rights each behave differently again. The instrument's legal terms matter, and so does whether it is settled in shares or cash. Our pages onstock options across bordersandrestricted share units across borderscover the two main cases.

The withholding problem, and why it lands on the employer

The employer generally has to withhold on the employment income element, in each country that has a claim, at the moment that country treats as taxable. For a mobile employee that means the payroll has to know the person's work location history over the earning period, in a system that usually only knows where they are now.

This is where the practical failure happens. An employee exercises after moving; the new country's payroll withholds on the whole benefit; the former country also has a claim on the part earned there; and the employee has to unwind it through credits and refund claims across two systems. Building the allocation before the event, and telling both payrolls, is far cheaper.

Relief, and where it falls short

Double taxation of the same award is relieved by foreign tax credits, and where the two countries disagree about allocation or timing, by the treaty. Credits work well when both countries tax the same income at the same time. They work poorly when the timing differs, because a credit generally requires the foreign tax to relate to income taxed in the same period — and a mismatch can strand the credit entirely.

Where relief genuinely fails, the treaty's mutual agreement procedure exists to resolve the allocation between the two authorities. It works, and it is slow, so its main practical value is as a reason to get the allocation right at the outset.

Departure, and the awards you take with you

Leaving a country while holding unvested awards raises two further questions. The departure country may treat emigration as a realisation event for some holdings, and awards may or may not be within that. And the award continues to vest under the plan while you are somewhere else, which is precisely what creates the split.

The planning options are mostly about timing and are mostly only available before the move: exercising vested options while still resident, allowing a tranche to vest before departure, or accepting the split with the allocation documented. Which is better depends on the two rate structures and on whether credits will actually be usable.

Handling a cross-border equity event

The work is done before the event. Afterwards it is a reclaim exercise.

1. **Build the award inventory** Every grant with its type, grant date, vesting schedule, exercise price and current status, plus the plan documents.
2. **Establish the taxable moment in each country** Grant, vest, exercise or sale, under each country's own rules, and note where they differ because that is where relief will be hardest.
3. **Reconstruct workdays by country** For the earning period of each tranche. This is the apportionment input, and it comes from travel and assignment records rather than from the payroll.

4. **Compute the allocation per tranche** Apportion the benefit between countries, and identify the withholding each payroll should apply at each event.
5. **Brief both payrolls before the event** So withholding happens in the right proportions rather than being corrected by refund claim afterwards.
6. **File both returns with a matched position** The same allocation on both sides, with credits claimed, and the mismatch flagged if the two timing rules differ.

Papers to gather

What an equity review needs:

- The plan documents and every grant agreement.
- A grant schedule with type, dates, quantities, exercise price and vesting terms.
- A record of exercises, vests, sales and cash settlements with dates and values.
- Workday records by country for each earning period.
- Residence dates and any departure or arrival return already filed.
- Payroll reports showing what has already been withheld and by whom.
- Broker statements for shares held after a taxable event, for cost base.
- Prior returns in both countries showing how earlier tranches were reported.

Where it goes wrong

- **Assuming the country you live in taxes the whole award** The part earned while working elsewhere generally belongs to that other country. Reporting the whole benefit in one place produces an over-payment in one country and an exposure in the other.
- **Not keeping workday records for the earning period** The apportionment needs where you worked between grant and vest, sometimes years before the taxable event. Without records the allocation is an assertion and the credit claim is fragile.
- **Exercising without checking the two timing rules** Where one country taxes at vest and another at exercise, a credit can be unusable because the taxes fall in different periods. Timing the event deliberately is often worth more than any election.

Questions this raises

I moved country before my options vested. Who taxes the gain?

Usually both, in proportion. The benefit is generally apportioned by where you worked over the period the award was earned, so the country you left keeps a claim on its share and the country you moved to taxes the rest — with credits relieving the overlap.

When is an option actually taxed?

It depends on the country and on whether the plan qualifies for a preferential regime. Many systems tax the spread at exercise as employment income, with later movement treated as a capital gain, but the taxable moment is not universal and the difference matters most when two countries are involved.

My new employer withheld tax on the whole award. Can that be fixed?

Usually, through the returns in both countries: the allocation is corrected, credits are claimed, and an over-withheld amount is recovered by assessment or refund claim. It is materially easier to brief both payrolls before the event than to unwind it after.

Does leaving a country trigger tax on unvested awards?

Sometimes. Several countries treat emigration as a realisation event for certain property, and whether unvested awards fall within it depends on the country and the instrument. It should be checked before departure, when the timing options still exist.

What to do next

If a move is planned and awards are outstanding, the pre-departure review is where the value is: what to exercise, what to let vest, and what allocation to document. If the event has happened, the work is establishing the correct allocation and recovering what was over-withheld.

We handle equity allocation, payroll briefing and both returns as one fixed-fee engagement agreed before work starts. Seestock options across borders,exit strategy for foundersandCanadians working in the US.

Legal Quotient Consultants

Cross-border and international tax. Fixed fees agreed in writing before work starts, quoted from your own documents.

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