



NET UNREALIZED APPRECIATION

(NUA)

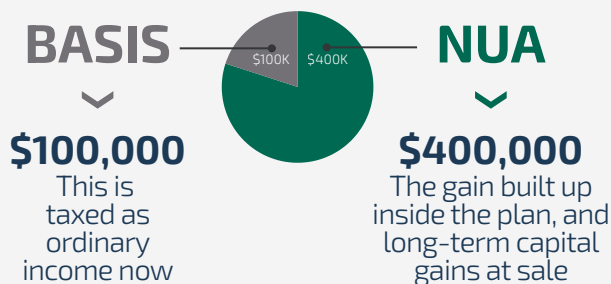
What Is Net Unrealized Appreciation (NUA)?

Net Unrealized Appreciation (NUA) is a quiet line in the tax code, IRC 402(e)(4), that can turn highly appreciated company stock inside a 401(k) into long-term capital gains *instead* of ordinary income. For long-tenured employees and owners sitting on low-basis shares, the gap is real money!

When you leave an employer or reach age 59½, you can move your company stock out of the plan and pay ordinary income tax on only what the shares cost, not what they are worth. The built-in gain, the NUA, is taxed *later* at **long-term capital gains rates**, even if you sell the very next day.

1) How the Tax Splits

— Let's Say You Have \$500,000 of Company Stock at Distribution —



- **Any growth after the shares leave the plan is a separate slice**, taxed by how long you hold it, with its own step-up at death.
- **Two Prices, Two Rates:** Every share carries a cost (*what the plan paid*) and a market value (*what it is worth today*). **NUA is the space between them.** Ordinary rates hit only the cost; appreciation waits for capital gains treatment. The lower your basis, the larger the green slice, and the larger the benefit.

2) The Three-Part Split, in a Table

The Portion?	What Is It?	How It's Taxed?	When It's Taxed?
Cost Basis	What the plan paid for the shares over the years	Ordinary Income up to 37%	Year of the distribution
NUA	The gain that built up while the shares sat inside the plan	Long-Term Gains 0%, 15%, 20%	When you sell the shares
Post-Distribution Gain	Any growth after the shares move to your brokerage account	Long or Short Term by holding period	When you sell the shares

3) Three Rules That Must All Be True

A Triggering Event

Separation from service, reaching age 59½, disability, or death. No trigger, no NUA.

A Lump-Sum Distribution

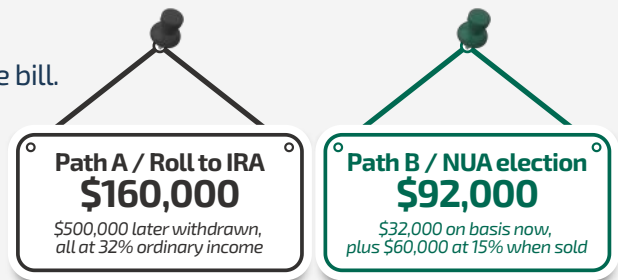
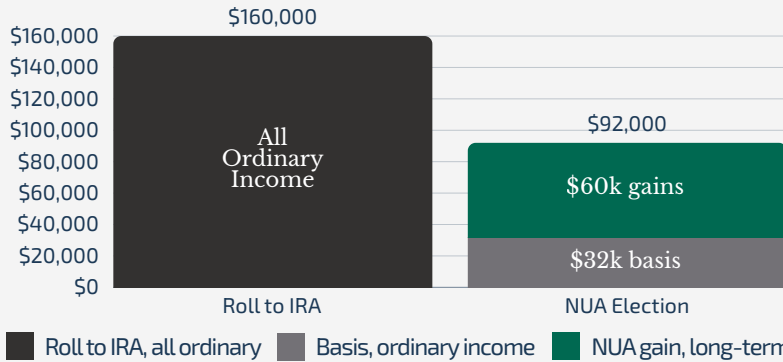
The entire vested plan balance clears the account in one calendar year, zero by Dec 31. Non-stock assets can roll to an IRA.

An In-Kind Transfer

Real shares move to a taxable brokerage account. Selling inside the plan and moving the cash does not qualify.

4) The Math, on \$500,000 of Stock

Same shares, two roads. One rolls everything into an IRA and later pays ordinary income on all of it. The other elects NUA and splits the bill.



The Difference?
\$68,000 Less
 a 43% smaller tax bill on the same block of stock



Important: NUA is *not* free money. Path A keeps deferring tax; NUA makes you pay the basis tax now. The win comes entirely from the rate gap between ordinary income and capital gains, so it grows with a lower basis and a higher bracket and it shrinks if you would have retired into a low ordinary rate anyway. The income-gap years between retirement and RMDs are often the sweet spot.

Assumptions: Hypothetical, for illustration only. Flat rates are applied to each slice to isolate the rate gap: 32% on the ordinary amounts, 15% on the NUA. Basis \$100,000, value at distribution \$500,000, NUA \$400,000, shares sold soon after distribution. Federal brackets are graduated and capital gains stack on top of ordinary income, so a real filer's blended rates would differ on both paths. Shown before state tax and without crediting Path A for continued deferral.

5) 2026 Long-Term Capital Gains Rates

Rate	Single, Taxable Income	Married Filing Jointly
0%	Up to \$49,450	Up to \$98,900
15%	\$49,451 to \$545,500	\$98,901 to \$613,700
20%	Above \$545,500	Above \$613,700

The 3.8% net investment income tax applies once MAGI tops \$200,000 single or \$250,000 joint. It does *not* touch the NUA itself, only the growth after the shares leave the plan. Structure unchanged by the One Big Beautiful Bill Act; thresholds indexed for 2026. Standard deduction: \$16,100 single, \$32,200 joint.

6) Where It Goes Wrong

1) Rolling first: Once the shares hit an IRA, NUA is gone for good.	2) A stray withdrawal: Any distribution between the trigger and the lump-sum year, even an RMD, disqualifies it until a new trigger.	3) No cash for the basis tax: Ordinary tax is due now. Funding it from the shares can erase the win.
4) Under age 59½: The 10% penalty hits the basis only. Exception: separating in or after the year you turn 55.	5) One stock, big risk: Concentration needs its own plan to diversify.	6) Cherry-pick the shares: NUA can cover just your lowest-basis shares, if you have share-level records.



The Estate Detail Most Sheets Miss!

At death, the NUA does *not* get a step-up in basis. It is income in respect of a decedent under Rev. Rul. 75-125, so heirs still owe long-term capital gains on that original appreciation whenever they sell. Only the growth after the shares left the plan receives a step-up. Worth weighing against a straight IRA rollover for legacy-focused families.

Because investor situations and objectives vary this information is not intended to indicate suitability for any individual investor. This is for informational purposes only, does not represent legal or tax advice does not indicate suitability for any particular investor, and does not constitute an offer to purchase or sell investments. Please consult the appropriate professional regarding your individual circumstance. Advisory services are offered through Asset Strategy Advisors, LLC (ASA). Securities are offered through representatives licensed with either Concorde Investment Services, LLC (CIS), member FINRA/SIPC. **1a-sc-r-a-987-7-2026**

If you have any questions on NUA, Schedule a 15-Minute Discovery Call!

www.assetstrategy.com/contact

781-235-4426

info@assetstrategy.com