



April 2014

New IRS CCA Discusses FICA Taxation Of Dividend Equivalents

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In IRS Chief Counsel Advice (CCA) 201414018 (released publicly on April 4, 2014), dividend equivalents paid currently that are attributable to deferred restricted stock units (RSUs) were said to be subject to FICA taxation when paid and not treated as earnings related to the RSUs that are exempt from FICA taxation. An analogous question is whether deferred dividend equivalents paid at the same time and form as deferred RSUs should also be subject to FICA taxation as such amounts are credited during the deferral period or, alternatively, be treated as earnings exempt from FICA taxation.

Consideration should still be given to treating dividend equivalents that are deferred, accumulated, and paid with respect to related RSUs differently, as earnings that are exempt from FICA taxation. In determining the FICA taxation of deferred dividend equivalents, taxpayers should not accept the conclusion of the recent CCA without further analysis.

FOR MORE INFORMATION

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