



## 2025 Compensation Planning for Executives

As a corporate executive, planning around your compensation can be exceedingly complex. Attempting to make optimal decisions around cash payments, stock options, other long-term incentives, deferred compensation, and more — all while leading a company — is no simple feat, even for those well accustomed to it.

To help you navigate the current planning environment, below are examples of strategies to discuss with your advisors.

### **ACCELERATE INCOME WHERE POSSIBLE**

In July 2025, the One Big Beautiful Bill Act (OBBBA) extended and made permanent many provisions from the Tax Cuts and Jobs Act (TCJA), including the lower individual income tax brackets and the expanded standard deduction. Notably, the top marginal income tax rate of 37%, which was previously set to expire after 2025, will now remain in place permanently.<sup>1</sup> While recent proposals to raise the top rate to 39.6% have not been enacted, future tax policy shifts remain possible. As an executive, you may have flexibility in how and when you receive income, particularly from stock options or restricted stock awards. With the potential for future rate increases or changes to capital gains treatment, it may be worth considering whether to accelerate income this year.

For example, you might choose to exercise stock options that are nearing expiration or make a Section 83(b) election on restricted stock awards (RSAs), allowing you to pay tax at the time of grant rather than at vesting. However, before making an 83(b) election, it's important to evaluate the risk that the stock price could decline or that capital gains rates could rise, which may reduce the benefit of early taxation. Work with your financial advisor to model different scenarios and align your equity compensation strategy with your broader tax and investment goals.

### **UNDERSTAND HOW EXPANDED EXCISE TAX RULES MAY AFFECT YOUR COMPENSATION**

If you're a highly compensated executive at a tax-exempt organization, the One Big Beautiful Bill Act (OBBBA) may directly impact your compensation strategy. The Act expanded the 21% excise tax under Section 4960, which now applies to any current or former employee who has ever been among the highest-paid individuals or received over \$1 million in compensation in any year since 2017 and who remains classified as a "covered employee" under Section 4960.<sup>2</sup> This includes not only C-suite leaders but also physicians, investment managers, and other professionals in high-paying roles. Even severance and deferred compensation may trigger the tax. To protect your financial interests, consider working with your advisor to review how your compensation is structured across entities, assess potential exposure, and explore planning strategies, such as timing of payments or use of non-taxable vehicles to help mitigate the impact.

### **CONTRIBUTE TO A ROTH IRA WHILE "BACK DOORS" STILL EXIST**

Roth accounts can be especially attractive to high earners. Investment growth and future withdrawals are tax-free after age 59 1/2, and required minimum distributions aren't required at age 73, as they are with traditional pre-tax accounts.

However, under current law, taxpayers with modified adjusted gross income (in 2025) of at least \$165,000 (\$246,000 if married, filing jointly) are prohibited from contributing to a Roth IRA.<sup>3</sup> “Backdoor” and “mega backdoor” Roth contributions are strategies that allow high earners to participate in Roth accounts.

A “backdoor” Roth contribution strategy works as follows:

- Although higher earners (as defined above) are barred from contributing to a Roth IRA, they are allowed to convert traditional IRA assets into a Roth IRA.
- When converting traditional IRA assets into a Roth IRA, taxpayers owe tax on the gains that have accrued from their contributions.
- To avoid paying taxes on gains from converting traditional IRA assets into a Roth IRA, taxpayers can make contributions to their traditional IRA account and then immediately convert those funds into Roth IRAs, leaving no time for the money to grow and shielding future appreciation from future taxes.

This strategy was targeted by lawmakers in 2021 and 2022 as part of tax reform proposals, which never materialized but highlighted the strategy’s vulnerability to future tax law changes.

Likewise, future legislation also could prohibit a similar strategy that can enable even greater tax savings — “mega backdoor” conversions. These conversions combine two features of employer-sponsored retirement plans: after-tax contributions and a Roth 401(k) that allows after-tax Roth conversions. If both of these features are offered, participants can take full advantage of the \$70,000 annual retirement savings plan contribution limit in 2025 (for both employee and employer contributions) by making after-tax contributions and then converting those contributions to a Roth 401(k).<sup>4</sup>

## **CREATE A PERSONAL CASH FLOW PLAN**

If you haven’t already, seek to optimize cash flow in your personal life, similar to how you would in your business. There are different ways to approach this with your financial advisor, but one strategy is to build cash flow statements and balance sheets based on your lifestyle and expected expenditures in future years and update them each year to reflect your spending and savings choices and market conditions. This allows you to align your investment choices — and liquidity profile — with your future liabilities.

## **INVEST EXCESS CASH**

Markets continue to respond to shifting signals from the Federal Reserve, trade policy developments, and broader economic trends. While timing the market is tempting during periods of volatility, staying invested in line with your long-term goals remains a proven strategy. If you’re holding excess cash, consider allocating it across equities, fixed income, and alternative investments based on your risk tolerance, time horizon, and overall financial objectives. Working with your advisor can help ensure your portfolio remains well-positioned, even as interest rates, inflation, and global trade dynamics evolve.

## **BUILDING A LONG-TERM PLAN FOR YOUR STOCK OPTIONS**

To make the most out of your option grants, build a comprehensive strategy with your financial advisor that considers a wide range of variables, including taxes, your risk tolerance, your balance sheet, the financial outlook for your company and your career stage. As part of this exercise, understanding the technical aspects and tax treatment of each of the two main types of options is important:

- **Incentive stock options (ISOs)** are not taxed at grant, vesting or exercise (although could have alternative minimum tax consequences). Instead, they are taxed as long-term capital gains once the underlying shares are sold, assuming holding requirement periods are met.
- **Non-qualified stock options** are taxed at ordinary income tax rates when they are exercised.

In addition to different tax treatments, these two types of options have other technical aspects that make them better suited to serve different purposes in your wealth plan. For example, non-qualified stock options can be a good candidate to satisfy your lifetime gifting goals, as they can be transferred once fully vested to your family or to a trust to the benefit of your family (while you remain responsible for the income tax generated once they are sold).

## **FACTOR STATE TAXES INTO YOUR DEFERRED COMPENSATION ELECTION**

If you plan to relocate to a different state when you retire, consider the state tax implications of your deferred compensation elections. Generally, if you elect a distribution period of less than 10 years, income will be taxed by the state in which it was earned. However, if you elect a distribution period of 10 years or more, the income will be taxed by the state in which you primarily reside at the time it is paid.

The OBBBA added new layers to this planning. It significantly increased the cap on the state and local tax (SALT) deduction from \$10,000 to \$40,000 through 2029, which may influence your overall tax exposure depending on where you live.<sup>5</sup> Additionally, because states vary in how they conform to federal tax law, some may not recognize the same treatment of deferred compensation or SALT deductions, making it even more important to understand the rules in both your current and future state of residence.

You should also work with your advisor to analyze the impact of taking a lump sum payout versus a payout over a period of years, while considering any potential income gaps during retirement. For example, many executives retire before they are required to begin taking required minimum distributions from retirement accounts (currently at age 73). In these situations, deferred compensation payments can serve as a tax-efficient way to bridge your income needs during the “in-between” years, especially when coordinated with your broader state and federal tax strategy.

The above are only examples of strategies that can be implemented to optimize compensation decisions — and ultimately achieve more for yourself and the people and causes you care about. To determine the best strategies for your specific circumstances, and take advantage of the current environment, please reach out to one of our advisors.



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<sup>1</sup> Watson, G. (2025, August 27). Big Beautiful Bill explained: Tax Changes FAQ | Tax Foundation. Tax Foundation. <https://taxfoundation.org/research/all/federal/one-big-beautiful-bill-act-tax-changes/>

<sup>2</sup> Compensation tax and the One Big Beautiful Bill Act | Grant Thornton. (2025, July 22). Grant Thornton. <https://www.grantthornton.com/insights/alerts/tax/2025/insights/compensation-tax-and-the-obbbba>

<sup>3</sup> Roth IRA income limits for 2025. (2025, May 8). <https://www.fidelity.com/learning-center/smart-money/roth-ira-income-limits>

<sup>4</sup> Publication 560 (2024), Retirement Plans for Small business | Internal Revenue Service. (n.d.). Retrieved September 6, 2025, from <https://www.irs.gov/publications/p560>

<sup>5</sup> Ea, K. D. C. (2025, September 5). Trump raised the SALT deduction limit to \$40,000 for 2025 — here's how to maximize it. CNBC. <https://www.cnbc.com/2025/09/05/trump-salt-deduction-limit-2025.html>

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