Tax Planning in a Layoff Year

A Guidance and Evaluation Tool for Tech Sector Workers

A layoff year is rarely a normal tax year. For technology professionals in particular, it often includes income spikes, forced timing decisions, and one-time events that do not repeat. Severance payments, equity vesting, option exercises, and changes in employment status can all converge in a single calendar year, creating both unusual planning opportunities and unexpected risks.

This guide outlines the most common tax considerations that arise during a tech layoff year and explains why coordination across equity, cash flow, and investment decisions is especially important during periods of transition.

Why Layoff Years are Tax Outliers

Most tax planning assumes relatively stable income and predictable withholding. A layoff disrupts both assumptions. Income may arrive unevenly, withholding may not reflect true liability, and decisions that normally unfold over years may be compressed into weeks.

For technology professionals, this effect is amplified by equity compensation and employer-specific deadlines. The result is not simply a higher tax bill, but greater sensitivity to timing. Decisions made early in the year can influence tax outcomes for several years to come.

Pause and Consider

- Has your income arrived unevenly this year compared with prior years?
- Are there one-time income events this year that will not repeat?
- Do you know which tax decisions this year cannot be reversed later?

> A layoff year often creates unusual planning opportunities – and unusual risks.

RSU Income Stacking

Restricted stock units are taxed as ordinary income at vesting, regardless of whether shares are sold. In a layoff year, RSU income may stack alongside severance payments, bonuses, or final compensation, pushing total taxable income higher than expected.

This clustering can move income into higher marginal tax brackets or trigger phaseouts of deductions and credits. Understanding how RSU income interacts with other compensation helps clarify whether income is unusually concentrated in a single year and whether withholding is sufficient to cover the resulting liability.

Professionals with significant equity compensation often benefit from reviewing these interactions before making additional tax-sensitive decisions.

Pause and Consider

- Did RSU income overlap with severance, bonuses, or final compensation?
- Was tax withholding on equity sufficient to cover your full liability?
- Would spreading income across years materially change your marginal tax rate?

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Stock Option Exercise Modeling

Most tax planning assumes relatively stable income and predictable withholding. A layoff disrupts both assumptions. Income may arrive unevenly, withholding may not reflect true liability, and decisions that normally unfold over years may be compressed into weeks. Stock options frequently present the most complex tax decisions following a layoff. Shortened post-termination exercise windows may force action before income for the year is fully known.

Incentive stock options and non-qualified stock options are taxed differently, and ISO exercises may introduce alternative minimum tax exposure. Exercising options involves weighing multiple trade-offs at once: the cost of exercise, potential tax liability, concentration risk, and the uncertainty of future liquidity.

Because option exercises are often irreversible once completed, many individuals choose to model scenarios in advance to understand the tax and risk implications of different approaches.

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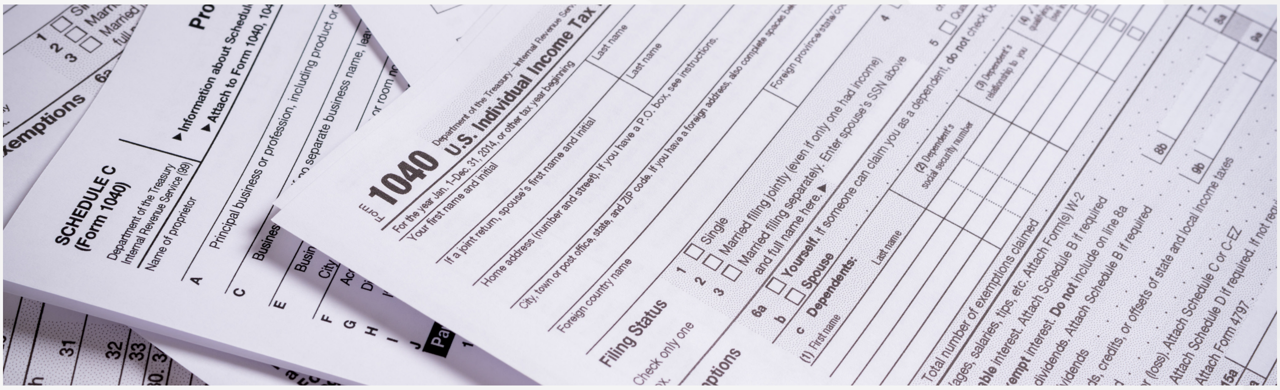
Pause and Consider

- **Do you know the exact expiration date of each option grant?**
- **Have you modeled the tax impact of exercising now versus later?**
- **Are you comfortable with the risk of holding company stock without current employment income?**



Estimated Tax Payments and Withholding Gaps

Severance payments and equity income do not always withhold taxes at levels that reflect total annual liability. As a result, underpayment penalties can occur even when income is fully reported.

A layoff year often requires revisiting estimated tax payments, adjusting withholding assumptions, or planning for cash set aside to meet future obligations. Reviewing tax exposure during the year, rather than waiting until filing season, can help avoid unpleasant surprises.

Pause and Consider

- **Have you reviewed whether estimated tax payments are required this year?**
- **Are you relying on withholding assumptions that no longer apply?**
- **Would an unexpected tax bill materially affect your liquidity?**

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Roth Conversion Opportunities

A temporary reduction in income following a layoff may create opportunities to convert traditional retirement assets to Roth accounts at lower tax rates. These opportunities are highly dependent on timing and coordination with other income sources.

Roth conversions are not universally beneficial and can backfire if they unintentionally increase taxable income or interact poorly with severance or equity income. Partial conversions and multi-year planning are often evaluated to balance current tax costs with long-term benefits.

Pause and Consider

- Is your taxable income lower this year than in a typical year?
- Have you evaluated whether a partial conversion could fit without increasing your tax burden?
- Do you understand how conversions interact with severance or equity income?

Loss Harvesting and Portfolio Adjustments

Market volatility during periods of transition can create opportunities to realize investment losses that offset capital gains or a portion of ordinary income. Loss harvesting may also help re-balance portfolios that have become concentrated through equity compensation.

However, timing matters. Wash sale rules, future income expectations, and portfolio structure all influence whether harvesting losses adds meaningful value. Tax-motivated trades should be evaluated alongside broader investment goals to avoid creating new risks while solving old ones.

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Charitable Giving Strategies

A layoff year may also prompt a reassessment of charitable giving. Donating appreciated securities, timing gifts strategically, or using donor-advised funds can help align philanthropic goals with tax planning.

These strategies tend to be most effective when coordinated with income spikes, deductions, and longer-term giving objectives rather than approached in isolation.

Pause and Consider

- Are you giving in cash when appreciated assets might be more tax-efficient?
- Would bundling charitable gifts change your deduction profile?
- Do charitable decisions align with changes in income this year?

When Tax Planning Becomes a Coordination Problem

Tax decisions in a layoff year rarely stand alone. Equity exercises affect cash flow. Severance timing affects healthcare subsidies. Portfolio moves influence future tax flexibility. Decisions made for one reason can quietly create consequences elsewhere.

Some individuals work through these complexities independently. Others choose to involve a fiduciary financial advisor who specializes in technology compensation and coordinates across tax, investment, and planning disciplines. This is particularly common for households with significant equity exposure or investable assets where mistakes can compound.

Validating assumptions before deadlines pass can help preserve flexibility and reduce the risk of irreversible outcomes.

Pause and Consider

- Are your tax, equity, and investment decisions being made independently?
- Would a missed deadline or modeling error have meaningful consequences?
- Would validating assumptions reduce stress or uncertainty?

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Final Thoughts

A tech layoff does not automatically create a tax problem, but it does create a year where timing matters more than usual. Understanding how income sources interact, which decisions are irreversible, and where coordination adds value can meaningfully influence long-term outcomes.

If several of the questions above felt difficult to answer with confidence, that is not unusual. A layoff year introduces complexity that even disciplined, experienced professionals may not encounter often.

Some individuals navigate these decisions independently. Others prefer to work with a fiduciary advisor who specializes in technology compensation and coordinates tax, equity, and investment decisions, particularly when deadlines and irreversible choices are involved.

This guide is intended to provide structure and awareness, not prescriptive advice. Individual circumstances vary, and tax outcomes depend on personal, regulatory, and market factors.

If you are navigating a tech layoff and evaluating whether your current approach still fits your level of complexity, additional context on decision timing and coordination may be helpful. We welcome you to reach out to us to continue the conversation by emailing clientservice@stickneyresearch.com or visiting our website below.

More information on navigating layoffs in the tech sector can be found on our RESOURCES PAGE.

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