Allspring

Compensation Concepts: Restricted Stock

Compensation Concepts adds clarity to complex compensation issues, helping advisors guide clients toward smarter decisions.

Authors	Date	Topic
Holly Swan	12/18/2025	Tax: Compensation Concepts

Restricted Stock

Restricted stock is a common form of employee compensation used to attract and retain talent, align employee interests with those of shareholders, and incentivize contributions to the company's success.

The value of restricted stock depends on the company's stock performance—if the stock price increases, the value of the stock rises, and vice versa. The term "restricted" refers to the limitations and conditions that must be met before the employee can fully own and sell the stock.

Restricted stock is typically issued in one of two forms:

- **Restricted shares**: These are actual shares of company stock granted to an employee, subject to restrictions until certain conditions are met. Employees' granted restricted shares may have voting rights and may receive dividends (if applicable) during the restriction period.
- **Restricted stock units (RSUs)**: These represent a promise to deliver shares of stock—or their cash equivalent—in the future, contingent upon meeting specific conditions.

Restricted stock is generally subject to a vesting schedule, meaning the employee must remain with the company for a specified period before receiving the shares or cash equivalent. Vesting can occur over time (e.g., annually or quarterly) or be based on performance milestones.

Once the shares or units vest, the employee is typically required to pay income tax on the market value of the shares at that time. This amount is treated as ordinary income and is subject to income tax withholding.

There is one notable exception: Employees who receive **restricted shares** (not restricted units) may elect to be taxed at the time they're granted the stock by making an election under IRC 83(b). This can potentially allow them to lock in a lower valuation if the stock appreciates in value over time. For more on 83(b) elections, read Compensation Concepts: Understanding 83(b) Elections.

After the restricted stock has vested, the employee receives the shares—or in the case of RSUs, either the shares or their cash equivalent. They may hold, sell, or transfer the shares, subject to any company policies or restrictions. While the restricted stock is subject to tax as ordinary income—either at the time of the grant if an 83(b) election is made or upon vesting—any future gains or losses on the stock are treated as capital gains or losses.

ALL-12112025-y8rx2w5r

Allspring Global Investments does not provide accounting, legal, or tax advice or investment recommendations. Any tax or legal information on this page is merely a summary of our understanding and interpretations of some of the current income tax regulations and is not exhaustive. Investors should consult their tax advisor or legal counsel for advice and information concerning their particular situation.