NIKE EMPLOYEE PLANNING SERIES

The Nike Tax Withholding Decision

Why taxes withheld from equity awards and bonuses may not equal the taxes actually owed

A paystub can show that taxes were withheld and still leave a household underpaid. Withholding is a payroll deposit calculated under administrative rules. The final tax return combines salary, PSP, equity awards, exercises of Nike employee stock options granted as equity compensation, ESPP dispositions, deferred-compensation payments, investment income, filing status, deductions, and state and local obligations. The difference between those two calculations is the tax-withholding gap. This paper discusses only stock options granted by Nike as part of an employee's equity-compensation package; it does not discuss exchange-traded options or options-trading strategies.

IDENTIFY THE TAX EVENT A vest, performance-award settlement, PSP payment, exercise of a Nike employee stock option granted as equity compensation, ESPP sale, and deferred-compensation distribution do not create income in the same way. Start by identifying exactly what happened, when it happened, and where it will be reported.

MEASURE THE HOUSEHOLD GAP Compare projected federal, Oregon, and applicable local tax with all withholding and estimated payments already made. Shares withheld or sold for taxes are a payment method; they do not establish the household's final marginal tax rate.

FUND THE SOLUTION Decide whether the gap will be covered through additional Form W-4 and Oregon Form OR-W-4 withholding, timely estimated payments, or a combination. Keep the tax reserve liquid instead of assuming the next vest or bonus will solve the prior event.

How Nike Compensation Reaches the Tax Return

The tax result begins with the compensation source. Some events are wages immediately, some create a later combination of wage and capital-gain income, and some can create tax without normal payroll withholding. Award agreements, payroll records, brokerage confirmations, Forms W-2, 3921, 3922, and 1099-B must be reconciled rather than reviewed separately.

WAGE EVENTS WITH PAYROLL WITHHOLDING

RSUS, PERFORMANCE AWARDS, AND PSUS When shares are delivered at vesting or settlement, their fair market value is treated as compensation and reported on Form W-2. Shares withheld or sold to cover taxes reduce the shares delivered, but the full compensation amount is still income. That compensation amount is included in the tax basis of the shares retained.

PSP AND OTHER CASH BONUSES A cash bonus is wage income. When it is identified separately from regular pay, payroll may use a supplemental-wage method. The withholding shown on the payment is credited on the tax return, but the bonus is ultimately taxed as part of the household's total taxable income.

NIKE NONQUALIFIED EMPLOYEE STOCK OPTIONS GRANTED AS EQUITY COMPENSATION For a Nike nonstatutory employee stock option granted as equity compensation without a readily determinable value at grant, the spread between fair market value and the exercise price is compensation at exercise. The spread is reported as wages and included in the basis of the acquired shares. A later sale creates a separate capital gain or loss.

EVENTS THAT CAN ARRIVE WITHOUT ENOUGH WITHHOLDING

EMPLOYEE STOCK PURCHASE PLAN ESPP payroll deductions are made with after-tax dollars and do not create regular taxable income at purchase. At sale, the holding period determines the ordinary-income and capital-gain components. Federal income tax withholding is not required on the ESPP ordinary-income component, even though the employer may report it in Form W-2 box 1. Basis must be adjusted to avoid taxing the same income twice.

NIKE INCENTIVE STOCK OPTIONS GRANTED AS EQUITY COMPENSATION - ONLY IF THE AGREEMENT SAYS ISO Exercise of a Nike incentive stock option granted as equity compensation does not create regular taxable income at exercise. When the shares are held beyond the exercise year, the spread is an alternative minimum tax adjustment. If the shares are sold in the same year as exercise, no AMT adjustment applies. Because no ordinary payroll event occurs at exercise, an exercise-and-hold strategy can create AMT without corresponding withholding.

DEFERRED COMPENSATION Amounts deferred under a compliant nonqualified deferred-compensation plan are subject to income tax when paid or otherwise made available. Under the special timing rule, Social Security and Medicare taxes apply at the later of when services are performed or when the substantial risk of forfeiture lapses. Amounts taken into account under that rule are not taken into account again for those payroll taxes when distributed. Current plan administration and Form W-2 reporting control.

> **Planning principle:** One transaction can create wage income first and capital gain or loss later. Correct basis and source records are essential to prevent both an unexpected bill and double taxation.

Why the Withholding Gap Appears

For 2026, separately identified supplemental wages of $1 million or less may be withheld federally at a flat 22% when the permitted flat-rate method is used. Supplemental wages above $1 million are withheld at 37% on the excess. Neither rate is a personalized tax projection. A Nike household can be in a 32%, 35%, or 37% marginal bracket before Oregon, local taxes, investment-income tax, or AMT is considered.

AN ILLUSTRATIVE FEDERAL GAP

THE PAYMENT Assume $100,000 of separately identified supplemental wages is withheld at 22%, producing $22,000 of federal income tax withholding. This illustration does not assume that Nike will use the flat-rate method for every payment.

THE HOUSEHOLD RATE If the same income falls within a 35% federal marginal bracket after the rest of the household return is projected, the incremental federal tax is approximately $35,000. The illustrative federal gap is $13,000 before other taxes, credits, deductions, and interactions.

THE MULTIPLIER A September 1 vest does not occur in isolation. Salary, PSP, performance awards, income from exercising Nike employee stock options granted as equity compensation, an ESPP sale, deferred-compensation distributions, a spouse's income, and portfolio gains can all raise the rate applied to the next dollar.

This is a hypothetical example for the purpose of illustrating these financial concepts and is not representative of of any specific investment strategy or allocation. Your results may vary.

PAYROLL TAXES ARE A SEPARATE CALCULATION

SOCIAL SECURITY AND MEDICARE For 2026, Social Security tax applies to covered wages up to $184,500; Medicare tax has no wage cap. Employers begin withholding the 0.9% Additional Medicare Tax after wages from that employer exceed $200,000, but the final liability depends on filing status and total household wages. A spouse's wages can therefore create another mismatch.

OREGON AND LOCAL TAXES Oregon uses a separate Form OR-W-4 and state withholding calculation. Oregon requires estimated payments when expected tax after credits and withholding is $1,000 or more, subject to the exceptions in Publication OR-ESTIMATE. Metro, Multnomah County, or other local income taxes may also apply based on residence and income; confirm the exact jurisdiction rather than relying only on the Nike paystub.

SAFE HARBOR DOES NOT MEAN PAID IN FULL

FEDERAL PENALTY TARGET Federal estimated-tax payments are required when both conditions apply: at least $1,000 is expected to remain due after withholding and tax credits, and those payments are less than the smaller of 90% of current-year tax or 100% of prior-year tax. The prior-year percentage increases to 110% for certain higher-income taxpayers. Meeting it may avoid a penalty while leaving a large balance due with the return.

TIMING MATTERS Federal estimated payments are tied to payment periods. For income that arrives unevenly, the annualized-income installment method may reduce a penalty, but it requires records and Form 2210 Schedule AI. For estimated-tax penalty calculations, wage withholding is deemed paid in equal parts on each installment due date unless the taxpayer establishes the actual withholding dates. That rule can make a late-year W-4 adjustment useful; tax advice should determine the method.

> **Planning principle:** The goal is not merely to reach a penalty safe harbor. It is to know the projected balance due, preserve cash to pay it, and prevent taxes from forcing an unplanned stock sale.

Build a Quarterly Nike Tax Process

A once-a-year tax review is too late for a compensation calendar that can change at each vest, exercise of a Nike employee stock option received as equity compensation, sale, or payout. A repeatable quarterly process turns payroll withholding into one input within a complete household tax projection.

THE SIX-PART TAX PROCESS

1. BUILD THE COMPENSATION CALENDAR List salary, PSP, September 1 and other equity dates, grant and exercise dates for Nike employee stock options received as equity compensation, ESPP dispositions, deferred-compensation payouts, spouse income, and expected investment gains.

2. FORECAST THE FULL RETURN Project federal, Oregon, and applicable local tax using the household filing status, deductions, credits, capital gains, AMT items, Additional Medicare Tax, and investment-income tax.

3. RECONCILE EVERY EVENT For each payment, record gross income, federal and state withholding, payroll taxes, shares delivered, fair market value, spread at exercise for Nike employee stock options received as equity compensation, and broker-reported basis. Save the source document when the event occurs.

4. CHOOSE THE PAYMENT METHOD Compare additional federal and Oregon payroll withholding with timely estimated payments. Coordinate federal, Oregon, and any local payment portals; one payment does not satisfy the others.

5. FUND A SEPARATE TAX RESERVE Set aside the projected gap from cash proceeds when the income event occurs. Keep the reserve liquid and outside a concentrated Nike position or another asset that may decline before the payment date.

6. RUN A YEAR-END RECONCILIATION Before the final payroll and estimated-payment deadlines, compare year-to-date Forms W-2 and paystubs, brokerage activity, records for Nike employee stock options received as equity compensation, and ESPP records, estimated payments, and the projected balance due.

QUESTIONS TO RESOLVE BEFORE THE NEXT EVENT

WHAT INCOME HAS ALREADY OCCURRED? Reconcile salary, PSP, vested awards, exercises of Nike employee stock options received as equity compensation, ESPP sales, deferred compensation, spouse income, and portfolio gains.

WHAT EVENTS REMAIN THIS YEAR? Add expected vesting, exercises of Nike employee stock options received as equity compensation, sales, payouts, charitable gifts, losses, and other transactions to the projection.

HOW MUCH HAS ACTUALLY BEEN PAID? Verify federal, Oregon, and local withholding and estimated payments from account records rather than relying on memory.

ARE THE PENALTY TARGET AND CASH TARGET DIFFERENT? Calculate both the applicable safe harbor and the projected full balance due, then reserve cash for the larger planning obligation.

Educational overview. Current Nike plan documents, award agreements, payroll records, brokerage records, tax forms, and professional tax advice control. Sources: IRS Publications 15 and 15-A (2026); IRS Publication 525 (2025); IRS Topics 306, 427, 560, and 751; IRS 2026 Form 1040-ES and Form 2210 guidance; Oregon Department of Revenue, Oregon Withholding Calculator and Publication OR-ESTIMATE. Reviewed August 2026.