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Mark Zuckerberg’s Win Win Facebook Tax Tips

The Facebook Wall chalkboard encourages employees to 'Write Something. ..' at the Facebook main campus in Menlo Park, CA. (Image credit: AFP/Getty Images via @daylife)

It’s (still) hard not to get excited by all the zeros after Mark Zuckerberg’s name. Yes, that’s despite the fact that the long vaunted and much hyped Facebook IPO did a face plant. As with other visionary billionaires, when Mr. Zuckerberg talks, people listen.

True, the excitement was quite different back in those frenetic pre-IPO days. San Francisco was a titter (and Twitter) with tales of a facially rising ocean that would lift all boats. Back then there seemed ***so much*** money to be made. Tax nerds were whirring away with programs over which gains could be taxed as capital gain rather than ordinary income. See Top Tax Tips From Zuckerberg’s Facebook Bonanza.

But that was then. In the post-IPO malaise, ***no one*** is worried about gains let alone how they’re taxed. Far from it. Those “lucky” enough to get in on a coveted share allotment for the IPO of the century would ***love*** to have gains—any kind of gains. Mr. Zuckerberg can’t exactly score tax points by advising to buy low and sell high, or even advising people to make an 83(b) election.

But Mr. Zuckerberg has quietly made the tax news in a different way, this time by having Facebook pay off $1.9 billion in federal taxes related to restricted stock units. The revelation, Why Facebook Is Paying the Tax Tab on Employee Compensation, is worth reading. The author notes that Facebook announced it planned to use cash to pay off the tax debt. The taxes arise out of restricted stock units issued to Facebook employees.

Facebook is "net settling" the units by withholding taxes now. To do that, since the units themselves don't involve cash, Facebook had to come up with almost $2 billion. The alternative would be to sell new shares, but that's hardly attractive now. Besides, using cash allows Facebook to reduce the number of fully diluted shares on its financial statement.

That might even help to raise the company's sagging stock price, not unlike a stock buyback. Mr. Zuckerberg famously resisted being bought out and resisted going public as long as he could. Despite his wealth and liquidity, one wonders whether the IPO is as disappointing to him as it is to investors.

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