Global Reward Update
United States of America

IRS updates next-day deposit administrative penalty waiver relief timeframes for equity compensation

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Headline

With effect from 17 April 2026, the IRS has updated its Internal Revenue Manual (IRM) guidance shortening the acceptable settlement window for the purposes of the next-day federal tax deposit (FTD) penalty administrative waiver from two business days to one business day. This change aligns IRS administrative practice with the SEC's move to T+1 settlement for equity market transactions, which took effect in May 2024.

The change applies to the following award types settled in stock:

- Non-statutory stock options (NSOs)
- Stock-settled stock appreciation rights (stock-settled SARs)
- Stock-settled restricted stock units (stock-settled RSUs)

Background

US employers are required to deposit employment taxes on the next business day after accumulating $100,000 or more in employment taxes during a deposit period — the so-called “next-day deposit rule”. For equity compensation, this obligation is triggered at the time the employer's tax liability arises: at exercise (for NSOs and stock-settled SARs) or at the time the employer initiates payment of the award (for stock-settled RSUs).

The IRS provides an administrative waiver of the FTD penalty (“FTD Waiver”) in cases where the deposit deadline is technically missed due to the mechanics of equity settlement. Under this FTD Waiver, IRS examiners recalculate the FTD penalty using the settlement date as the liability incurred date (rather than the exercise or payment initiation date when computing the $100,000 next-day deposit obligation).

For this FTD Waiver to apply, employers must be able to demonstrate that settlement occurred within an acceptable window following the triggering date. Prior to 17 April 2026, that window was two business days, consistent with the prior SEC standard settlement cycle (T+2).

What has changed

The April 2026 IRM update narrows the acceptable settlement window to one business day (T+1) for all three award types, reflecting the SEC's shortened standard settlement cycle. See below for further details:

NSO / Stock-Settled SAR

- Prior (pre-April 2026): Settlement accepted within 2 business days of exercise date
- **Current (effective April 17, 2026): Settlement accepted within 1 business day of exercise date**

Stock-Settled RSU

- Prior (pre-April 2026): Settlement accepted within 2 business days of payment initiation date
- **Current (effective April 17, 2026): Settlement accepted within 1 business day of payment initiation date**

Fallback if outside window

- Prior (pre-April 2026): Use the 2nd business day after exercise / payment initiation date
- **Current (effective April 17, 2026): Use the 1st business day after exercise / payment initiation date**

This change has real operational implications for employers administering equity compensation plans, particularly those whose equity plan administrators or brokers may still be operating on a T+2 settlement assumption. Employers should consider the following:

- Sell-to-cover arrangements may be most at risk
  For RSU vesting events that trigger a next-day deposit obligation, many sell-to-cover arrangements involve a share sale initiated on or after the payment initiation date that may not settle until T+1 after the sale — meaning T+2 or later from the perspective of the payment initiation date. Under the prior rules, this would generally have been within the acceptable window. Under the updated rules it may not be, potentially exposing employers to FTD penalties. Employers and their brokers should confirm exactly when their sell-to-cover transactions settle relative to payment initiation. Employers may need to advance the cash needed to fund the required withholding tax deposits in order to satisfy the tax deposit deadline. Alternatively, employers may want to revisit the process with their brokers to determine whether it may be possible to initiate the sell-to-cover process on the same day as the payment initiation.
- Withhold-to-cover arrangements may benefit from cleaner timing
  Where shares are withheld directly on the payment initiation date, settlement can often be completed within one business day, bringing these arrangements into compliance more readily. The IRM guidance notes that SEC T+1 settlement requirements do not technically apply to private (non-market) transactions, but the IRS is nonetheless utilising the SEC settlement timing framework for FTD Waiver relief.
- Prior-day close FMV may help
  Employers who calculate taxable income using the prior day's closing price (rather than the current day's price) effectively know the tax amount on the morning of the payment initiation date. This approach which has seen a 170% increase in adoption since 2016 per the 2025 NASPP/Deloitte Tax LLP Equity Administration Survey may provide an additional operational buffer and allow payroll teams to initiate tax deposits earlier in the process.
- The $100,000 threshold is key
  The FTD Waiver and the underlying rules only apply when employment taxes accumulated during the deposit period equal or exceed $100,000, triggering the next-day deposit obligation. Smaller taxable events below that threshold are not affected.

Private company equity awards are not exempt from next-day tax deposit rules
Unlike public company awards, where broker settlement must comply with the SEC T+1 timeline, the timing of private company settlement is often predicated on internal plan administration processes without regard to the SEC requirement. Nonetheless, the next-day tax deposit rules apply to private companies, and the T+1 requirement applies for purposes of the FTD Waiver. Accordingly, private company employers should confirm that their internal settlement processes can meet this standard.

Deloitte's view

The narrowing of the acceptable settlement window from T+2 to T+1 is a straightforward administrative update, but its practical effect may be significant for employers who have not re-examined their equity settlement workflows since the SEC's T+1 rule change in May 2024. The IRS is effectively aligning its administrative standard for equity compensation deposits with the same SEC settlement timeline that already governs the underlying share transactions.

Employers, working with their equity plan administrators and brokers may want to take proactive steps to confirm that their current settlement processes align with the next-day tax deposit rules based on the T+1 settlement period. For employers who are already compliant with the SEC T+1 timing, this update may not create new exposure. For those who are not, the risk of FTD penalty assessment, and the associated administrative burden of seeking abatement, has now increased.

Who to contact

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