

Musk sells more shares than he needs to pay current tax bill

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CEO Elon Musk departs from the justice center in Wilmington, Del., Tuesday, July 13, 2021. Musk is selling more Tesla shares than he needs to pay current tax obligations, and experts say he's either converting part of his fortune from stock to cash, or he's saving for bigger tax bills that will come due next year. As of early Wednesday, Nov. 17, Musk had sold roughly 8.2 million shares in the electric car and solar panel maker in the past nine days, worth a total of just over \$8.8 billion. Credit: AP Photo/Matt Rourke, File

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As of early Wednesday, Musk had sold roughly 8.2 million shares in the electric car and solar panel maker in the past nine days, worth a total of just over \$8.8 billion.

Of those, Musk sold 2.8 million shares worth about \$3 billion specifically to pay taxes on three tranches of stock options that he exercised this week, according to filings with the U.S. Securities and Exchange Commission. That means he has sold roughly \$5 billion more in shares than he needs at present.

Under a compensation plan from 2012, Musk has options to buy 26.4 million shares. The options expire next year, and the tax bill will come due. Wedbush analyst Daniel Ives estimates the bill to be \$10 billion to \$15 billion, depending on the stock price. Musk's options so far allowed him to buy shares at \$6.24 each, and the stock is selling for around \$1,080.

Erik Gordon, a University of Michigan business and law professor, questioned why Musk would sell that many shares now to pay obligations that come due next year. He said accruing for future tax liabilities makes sense only if Musk expects the stock price to drop.

"If you think the stock is going to go up, or if you think the stock is going to stay the same, you wouldn't be selling extra shares," he said.

On Nov. 6, Musk asked his 60 million Twitter followers if he should sell some of his Tesla stock. "Much is made lately of unrealized gains being a means of tax avoidance, so I propose selling 10% of my stock," he

wrote. According to Musk, 58% of those who responded said yes.

Musk also conceded his wealth is tied up in stock, tweeting that he doesn't get a cash salary or bonus from anywhere. "I have only stock, thus the only way for me to pay taxes personally is to sell stock," he wrote.

Musk started selling on Monday, and as of Wednesday, he had liquidated about 5% of his holdings. His federal tax obligations could be as high as 40% on proceeds from some of the sales, said Brad Badertscher, an accounting professor at the University of Notre Dame.

Musk could have cut his tax bill on the options in half if he had exercised the options and waited a year to sell the shares, Badertscher said. That's because with an immediate sale, the gain is taxed as ordinary income. In a year, Musk would pay the much lower capital gains rate, he said.

Wedbush's Ives said that while the Twitter poll is unorthodox, it telegraphed the sale to investors, preventing a huge selloff in Tesla stock. "If he didn't do the Twitter poll and just started selling stock, the stock is probably 15% lower than it is today," Ives said.

As of Tuesday, Tesla's stock had fallen nearly 14% since Musk agreed to abide by the poll. On Wednesday, the stock rose more than 3%. Ives is confident that investors will see the stock's value as the sales start to wane.

Musk historically has been adept at moving the price of Tesla stock through tweets, said Michigan's Gordon. "He's shown himself to be a master of influencing the price of Tesla stock," Gordon said. "That's the story over and over again."

Messages were left seeking comment from Musk and Tesla, which has disbanded its media relations department.

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