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THE TAX LAWYER

TAXES | 4/08/2013

# Don't Cry For Zuckerberg's \$1B Tax Bill---Facebook Deducted It

Much of the kerfuffle over how much tax Mark Zuckerberg is paying seems a little silly. See [Facebook's Mark Zuckerberg faces \\$1 billion tax bill](#). Do you feel sorry for him? Not likely. Is he a patriot for writing a big check to the IRS? Not really. Besides, much was done via withholding.

It was all part of his Facebook pay, after all. And Facebook gets a tax deduction for every dollar. Facebook's IPO left Mr. Zuckerberg with a paper fortune of about \$13 billion and a 2012 tax bill of about \$1.1 billion.

But it wasn't the IPO that triggered the tax. It was Mr. Zuckerberg himself. On the day of Facebook's IPO, he exercised options and purchased 60 million Facebook shares at 6 cents each. Anyone with a calculator would have done the same. Wouldn't you pay 6 cents for a \$38 share?

Since Mr. Zuckerberg received the options as part of his compensation, the tax code says he



Mark Zuckerberg, Hail Caesar!  
(Photo credit: DonkeyHotey)

had compensation on the spread when he exercised. Mr. Zuckerberg had 2012 income of nearly \$2.3 billion just from options, so he dipped into his trove of Facebook stock. He sold 30.2 million shares, taking in \$1.135 billion.

A Facebook regulatory filing stated that Mr. Zuckerberg planned to use the proceeds to cover his taxes. That is quite common among executives—they exercise and sell what they need to generate cash. Mr. Zuckerberg still has 60 million unexercised options good until 2015, so more wealth and more taxes are probably on the way.

As to angst over the size of Mr. Zuckerberg's 2012 tax bill, it is true that ordinary income rates (and employment taxes) on such a haul are high. It is also true that California's tax rates are high and were made retroactively worse in late 2012 by a vote championed by California's Governor Jerry Brown. With an IRS rate of 35% and California's 13.3% rate, he could be paying 48.3%.

Still, he likely cut it with deductions, including charitable contributions. See [Zuckerberg's Facebook Stock Donations](#). A \$1.1 billion tax bill does make Mr. Zuckerberg the Incredible Hulk of taxpayers. Warren Buffett paid less than \$7 million in 2010. On average, the 400 wealthiest filers paid only \$48 million in federal income taxes in 2009.

But while you are liking Mr. Zuckerberg for paying \$1.1 billion, you might want to defriend Facebook for getting billions in paper deductions. When Mr. Zuckerberg has compensation, Facebook is treated as paying cash (even though it didn't). Those huge—some say unfair—deductions have become controversial. "Due to the stock option loophole, Facebook may not pay any corporate income taxes on its profits for a generation," said Senator Carl Levin, the Michigan Democrat who proposed changing it.

Finally, Mr. Zuckerberg had Facebook pay off \$1.9 billion in federal taxes related to restricted stock units. Facebook net settled the units by withholding taxes. See [Why Facebook Is Paying the Tax Tab on Employee Compensation](#). Mr. Zuckerberg is a visionary and is paying far more tax than most billionaires, maybe even more than anyone in history. If he had planned it differently, he might have had bigger capital gains and lower taxes, but he's coming out just fine. Just fine indeed.

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