Determining your 2019 stock plan tax requirements — a step-by-step guide

INSIDE
How to use the Supplemental form to help avoid overpaying taxes

Only when you sell shares acquired from a qualified employee stock purchase plan (ESPP) does a taxable event occur. Upon selling shares, you may have taxable ordinary income to report, in addition to any capital gains or losses. Follow the steps outlined in this document to help you determine the IRS tax-reporting requirements.
Qualified ESPP

What is a qualified ESPP?
A Section 423 ESPP is qualified under the U.S. tax code and allows employees to purchase stock at a discount from fair market value without any taxes owed on the discount at the time of purchase. To receive favorable long-term capital gains tax treatment on a portion of your gains when the shares are sold, you must hold the shares for the time period required by Section 423 of the tax code. (See the FAQs in the back of the guide for more details.) A Section 423 plan is the most common form of ESPP offered by companies.

How do I find out what type of ESPP I am enrolled in?
Your specific plan documents will address whether your ESPP offering is Section 423 qualified or nonqualified.

What action do I need to take?
If you are enrolled in a qualified ESPP, please review this Tax Guide.

Nonqualified ESPP

What is a nonqualified ESPP?
A nonqualified ESPP may be structured like a qualified 423 plan, or it may offer different benefits from a Section 423 plan, but without the preferred tax treatment for employees.

How do I find out what type of ESPP I am enrolled in?
Your specific plan documents will address whether your ESPP offering is Section 423 qualified or nonqualified.

What action do I need to take?
If you are enrolled in a nonqualified ESPP, please click here to review the Nonqualified ESPP Tax Guide.
# Form/Data

<table>
<thead>
<tr>
<th>Form/Data</th>
<th>Where to Find It</th>
<th>Who to Call</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form W-2</td>
<td>This form will be provided by your company.</td>
<td>Your company’s payroll department</td>
</tr>
<tr>
<td>IRS Form 1040 and Schedule D</td>
<td>Forms are available online at <a href="http://www.irs.gov">www.irs.gov</a>,* by calling 800.TAX.FORM (800.829.3676), or by visiting your local IRS office.</td>
<td>Your local IRS office or your tax advisor</td>
</tr>
<tr>
<td>IRS Form 8949</td>
<td>This form is available online at <a href="http://www.irs.gov">www.irs.gov</a>,* by calling 800.TAX.FORM (800.829.3676), or by visiting your local IRS office.</td>
<td>Your local IRS office or your tax advisor</td>
</tr>
<tr>
<td>Form 1099-B</td>
<td>You can access the form by logging in to Fidelity.com/taxforms at the end of January. In addition, a form will be mailed to you no later than mid-February, if applicable.</td>
<td>A Fidelity Stock Plan Services Representative at the number provided on the statement</td>
</tr>
<tr>
<td>2019 Supplemental Information</td>
<td>You can access the form by logging in to Fidelity.com/taxforms at the end of January. In addition, a form will be mailed to you no later than mid-February, if applicable.</td>
<td>A Fidelity Stock Plan Services Representative at the number provided on the statement</td>
</tr>
</tbody>
</table>

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**Participant uses these Fidelity forms…**

- **Form 1099-B**: Supplemental Information form
- **Form 8949**: to complete…
- **Schedule D**: Rolls up into
- **Form 1040**: Rolls up into

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*Note:* Social security number or taxpayer identification number, Your spouse as a dependent, Last name, Your Employee Stock Purchase Plan (for Qualified Plans), IRS Form 1040 and Schedule D, IRS Form 8949.
2 Report your ordinary income.

After you sell ESPP stock, your company may report your ESPP income on your W-2 as wages in box 1 if you are an employee. Even if your company does not report the income from an ESPP as compensation on your W-2, you are still responsible for properly reporting and paying tax on the amount of ordinary income. You have no withholding for income tax. Social Security and Medicare taxes do not apply. In addition, you may owe tax on any capital gains resulting from the sale of your stock, which is explained in later steps.

Example: IRS W-2 for a Qualified ESPP and Form 1040

ESPP income will usually be included with your other compensation in box 1.1

ESPP income could be included in boxes 16 and 18, if state and local taxes apply.

W-2 income is reported on line 1 of Form 1040.
3. Assemble information on the purchase and sale of your stock.

You will need to refer to two documents: your Fidelity Brokerage Form 1099-B tax-reporting statement and your 2019 Supplemental Information form. The Supplemental Information form may contain information that is not reported on your 1099-B due to cost basis regulations. If the amounts on these two forms differ, you’ll need to use information from both to complete your tax forms to ensure that you don’t overpay in taxes.

Example: Fidelity Brokerage 1099-B Tax-Reporting Statement

<table>
<thead>
<tr>
<th>CUSIP</th>
<th>Quantity</th>
<th>Date Acquired</th>
<th>Date Sold</th>
<th>Proceeds</th>
<th>Cost or Other Basis</th>
<th>Gain/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>403,686</td>
<td>07/31/18</td>
<td>04/16/19</td>
<td>11,422.60</td>
<td>6,894.96(e)</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**TOTALS**

Box A Short-Term Realized Gain
Box A Short-Term Realized Loss

4,527.64

0.00

4 Federal Income Tax Withheld
16 State Tax Withheld

*This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.*

For illustrative purposes only.

1. — CUSIP (your company’s ticker/trading symbol)
2. — Quantity (number of shares sold)
3. — Date Acquired (date shares were purchased)
4. — Date Sold or Disposed
5. — Proceeds (gross proceeds from stock sale)
6. — Cost or Other Basis (this is provided to the IRS, as directed, and may need to be adjusted—see the Supplemental form)
7. — Gain/Loss (from the proceeds of the sale and may also need to be adjusted—see the Supplemental form)
3 Assemble information on the purchase and sale of your stock.

Example: 2019 Supplemental Information Form

- Ordinary Income Reported (cross-reference this with your company W-2 and input in column (g) of Form 8949)
- Adjusted Cost Basis (this amount is used to recalculate your gain/loss and is equal to the ordinary income plus the cost basis on your 1099-B)
- Adjusted Gain/Loss (recalculated per your adjusted basis; proceeds minus your adjusted cost basis—this amount goes in column (h) of Form 8949)
Use the forms to calculate your capital gains and/or losses on IRS Form 8949 and Schedule D.

Even though the ordinary income may be reported on your W-2, you still need to report the sale of the stock on Form 8949 and carry over the amounts to Schedule D.* You will need both your 1099-B and Supplemental form to help you complete your tax forms.

In preparation for completing these forms, consider the following:

1. How long did you hold the shares before you sold them? This determines which section of Form 8949 to complete.

Form 8949 is divided into two parts:

- **Part I is for short-term capital gains and losses.** *Short-term* is defined as selling the stock one year or less from the date you acquired it.

- **Part II is for long-term capital gains and losses.** *Long-term* is defined as holding the stock for more than one year from the date you acquired it.

2. Does the cost basis on your 1099-B match the amount on your Supplemental form? If it doesn’t, you may need to make an adjustment on Form 8949. This is because the IRS does not allow brokers to include the W-2 income in the cost basis.

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*State and local taxes may also apply and the rules governing such taxes may vary from federal income tax rules. Please consult your tax advisor.*
Use the forms to calculate your capital gains and/or losses on IRS Form 8949 and Schedule D.

Example: ESPP purchase and sell after holding one year or less (Short-Term)
4. Use the forms to calculate your capital gains and/or losses on IRS Form 8949 and Schedule D.

Example: ESPP purchase and sell after holding longer than one year (Long-Term)
Note: Qualified dispositions will always be considered long-term holdings.

To complete Form 8949 and Schedule D, you need to know:
- The number of shares you sold
- The date of sale
- When you acquired/purchased those shares
- The gross proceeds from the sale
- Your cost basis
- Amount of ordinary income (from the Supplemental form)

<table>
<thead>
<tr>
<th>Form 8949</th>
<th>Sales and Other Dispositions of Capital Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Go to <a href="http://www.irs.gov/Form8949">www.irs.gov/Form8949</a> for instructions and the latest information.</td>
</tr>
<tr>
<td></td>
<td>File with your Schedule D to list your transactions for lines 1a, 2, 3, 8a, and 10 of Schedule D.</td>
</tr>
</tbody>
</table>

**Part I: Long-Term.** Transactions involving capital assets held more than one year are generally long-term (see instructions). For short-term transactions, see page 1.

**Note:** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren’t required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- **Box D:** Long-term transactions reported on Form(s) 1099-B showing basis wasn’t reported to the IRS (see Note above)
- **Box E:** Long-term transactions not reported to you on Form 1099-B
- **Box F:** Long-term transactions not reported to you on Form 1099-B

### Example: ESPP purchase and sell after holding longer than one year (Long-Term)

Note: Qualified dispositions will always be considered long-term holdings.

<table>
<thead>
<tr>
<th>Date stock sold</th>
<th>Gross proceeds from stock sale</th>
<th>Basis in Box 1a of Form 1099-B is too low or blank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase date</td>
<td>(Box 1a on Form 1099-B)</td>
<td>Calculate these totals on Schedule D.</td>
</tr>
<tr>
<td>Column (e)</td>
<td>Basis in Box 1a of Form 1099-B</td>
<td></td>
</tr>
<tr>
<td>Column (f)</td>
<td>Code B</td>
<td></td>
</tr>
<tr>
<td>Column (g)</td>
<td>Omitted amount (e.g., W-2 compensation not included) Use the Ordinary Income Reported from Fidelity’s Supplemental Information Form.</td>
<td></td>
</tr>
<tr>
<td>Date stock sold</td>
<td>Cross proceeds from stock sale (Box 1d on Form 1099-B)</td>
<td></td>
</tr>
<tr>
<td>Fidelity subtracts commissions and fees from the proceeds.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross proceeds from stock sale (Box 1d on Form 1099-B)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For each type of sale (Box D, E, or F, checked above), fill in all sales of that type together on a separate copy of Form 8949.

* Instead of the IRS version of Form 1099-B, you received a substitute statement from Fidelity with a different layout (e.g., columns instead of boxes). All above instructions still apply.

** For ESPP shares sold in a qualifying disposition, this amount is the W-2 income for the discount at purchase (Box 3 minus Box 8 on Form 1099-B). When the actual gain at sale is less than the discount on the purchase date, the ordinary income is the amount of the actual gain at sale. When the sale price is less than the purchase price, there is no ordinary income.

For illustrative purposes only.
5 Use IRS Form 8949 to calculate your capital gains and/or losses on Schedule D.

Gain or loss from the sale of the stock should be reflected on Form 8949 and Schedule D. How this is reflected depends on whether the sale is short-term (one year or less from the date the stock was acquired to the date it was sold) or long-term (more than one year from the date acquired to the date of sale).

Example: Short-Term Gains or Losses

<table>
<thead>
<tr>
<th>SCHEDULE D</th>
<th>Capital Gains and Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Form 8949 or 1040-SR)</td>
<td>2019</td>
</tr>
</tbody>
</table>

Did you dispose of any investments in a qualified opportunity fund during the tax year? No

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Example: Long-Term Gains or Losses

<table>
<thead>
<tr>
<th>SCHEDULE D</th>
<th>Capital Gains and Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Form 8949 or 1040-SR)</td>
<td>2019</td>
</tr>
</tbody>
</table>

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Frequently Asked Questions

Q: What is new for this tax season?
A: The tax-reform legislation that took effect in 2018 changed the tax rates on income. In addition, the 2019 IRS Form 1040 tax return alters some of the prior filing rules, including those for capital gains or losses. For additional information, please review the content at What’s New This Tax Season?

Q: I have a “qualified” ESPP. What do “qualified dispositions” and “disqualified dispositions” mean?
A: A qualified ESPP is offered under Section 423 of the Internal Revenue Code and is “qualified” for special capital gains treatment if you hold your shares for a certain period of time. See the example below.

What is the date shares were purchased and when did you sell those shares?

<table>
<thead>
<tr>
<th>Disqualified Disposition</th>
<th>Qualified Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Date/Beginning of Offering Period</td>
<td>Year 1</td>
</tr>
<tr>
<td>1/1/2018</td>
<td>Purchase Date</td>
</tr>
<tr>
<td>2/3/2019</td>
<td>Sold</td>
</tr>
<tr>
<td>Year 2</td>
<td>1/2/2020</td>
</tr>
<tr>
<td>Year 3</td>
<td></td>
</tr>
</tbody>
</table>

For Example:
Grant date/beginning of offering period: 1/1/2018
Date shares purchased: 2/3/2019
Date you sold these shares: 1/2/2020

You have a disqualified disposition because even though you sold two years after the grant date, it was less than a year after the purchase date.

Q: Will I owe other taxes beyond federal tax when I sell my stock?
A: State and local taxes may also apply, and the rules governing such taxes may vary from federal income tax rules. Please consult your tax advisor for more information.

Go to the Fidelity SPS Resource Center.