Determining your 2018 stock plan tax requirements — a step-by-step guide

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 tax-reporting requirements.

INSIDE
How to use the Supplemental Form to help avoid overpaying taxes
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 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.
1 Gather the following documents.

<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, Schedule D, and Schedule 1</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>2018 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>

Participant uses these Fidelity forms...

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**2 Report your ordinary income.**

Your company may report your ESPP income after you sell your stock 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, or Medicare. 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**

<table>
<thead>
<tr>
<th>a Employee’s social security number</th>
<th>b Employer identification number (EIN)</th>
<th>c Employer’s name, address, and ZIP code</th>
<th>1 Wages, tips, other compensation</th>
<th>2 Federal income tax withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>d Control number</td>
<td>e Employee’s first name and initial Last name Suff.</td>
<td>f Employee’s address and ZIP code</td>
<td>3 Social security wages</td>
<td>4 Social security tax withheld</td>
</tr>
<tr>
<td>g</td>
<td>h</td>
<td>i</td>
<td>5 Medicare wages and tips</td>
<td>6 Medicare tax withheld</td>
</tr>
<tr>
<td>j</td>
<td>k</td>
<td>l</td>
<td>7 Social security tips</td>
<td>8 Allocated tips</td>
</tr>
<tr>
<td>m</td>
<td>n</td>
<td>o</td>
<td>9</td>
<td>10 Dependent care benefits</td>
</tr>
<tr>
<td>p</td>
<td>q</td>
<td>r</td>
<td>11 Nonqualified plans</td>
<td>12a See instructions for box 12</td>
</tr>
<tr>
<td>s</td>
<td>t</td>
<td>u</td>
<td>13</td>
<td>12b</td>
</tr>
<tr>
<td>v</td>
<td>w</td>
<td>x</td>
<td>14 Other</td>
<td>12c</td>
</tr>
<tr>
<td>y</td>
<td>z</td>
<td></td>
<td>12d</td>
<td></td>
</tr>
<tr>
<td>AA</td>
<td>BB</td>
<td>CC</td>
<td>15 State wages, tips, etc.</td>
<td>16 State income tax</td>
</tr>
<tr>
<td>DD</td>
<td>EE</td>
<td>FF</td>
<td>17</td>
<td>18 Local wages, tips, etc.</td>
</tr>
<tr>
<td>GG</td>
<td>HH</td>
<td>II</td>
<td>19</td>
<td>20 Local income tax</td>
</tr>
<tr>
<td>JJ</td>
<td>KK</td>
<td>LL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Form W-2 Wage and Tax Statement**

**2018**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee’s FEDERAL Tax Return.

This information is being furnished to the Internal Revenue Service.

For illustrative purposes only.

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†ESPPs have no withholding for income tax, Social Security, or Medicare.

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

For illustrative purposes only.
3 Assemble information on the purchase and sale of your stock.

You will need to refer to two documents: your Fidelity Brokerage 1099-B Tax-Reporting Statement and your 2018 Supplemental Information Form. The Supplemental 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

![Form 1099-B Image]

*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 are 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: 2018 Supplemental Information Form

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8 — Ordinary Income Reported (cross-reference this with your company W-2 and input in column (g) of Form 8949)

9 — 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)

10 — Adjusted Gain/Loss (recalculated per your adjusted basis; proceeds minus your adjusted cost basis—this amount goes in column (h) of Form 8949)
4 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. Determine which section you will need to complete:
   
   • **Part I is for short-term capital gains and losses.** *Short term* is defined as selling the stock less than one year 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.

*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.*
**Your Employee Stock Purchase Plan (for qualified plans)**

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 less than one year (short term)

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### 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)

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### Form 8949

<table>
<thead>
<tr>
<th>Sales and Other Dispositions of Capital Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of the Treasury Internal Revenue Service</td>
</tr>
<tr>
<td>File with your Schedule D to list your transactions for lines 1b, 2, 3, 9b, 10, and 10 of Schedule D.</td>
</tr>
<tr>
<td>Social security number or taxpayer identification number</td>
</tr>
</tbody>
</table>

**Before you check Box A, B, or C below, see whether you received any Form 1099-B or substitute statement from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (locally your cost) was reported to the IRS by your broker and may even tell you which box to check.**

#### Part I: Short-Term Transactions involving capital assets you held 1 year or less are generally short-term (see instructions).

**Note:** You may aggregate all short-term transactions reported on Form 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 1a, you aren’t required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page or one more of the boxes, complete as many forms with the same box checked as you need.

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### Illustration

**Example:** ESPP purchase and sell after holding less than one year (short term)

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)

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**For illustrative purposes only.**

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### Form 8949 (continued)

**Formula:

\[
\text{Total \, Capital \, Gains} = \sum \text{Gains} \times (1 - \text{Tax \, Rate})
\]

**Example:**

If you sold 100 shares of XYZ Co. at $10 per share for $1,000 and your basis was $900, your capital gain is $100 (\$1,000 - $900). If you are in a 25% tax bracket, your taxable gain is $75 (\$100 \times 0.25).

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**For Paperwork Reduction Act Notice, see your tax return instructions.**

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**Continues**
Your Employee Stock Purchase Plan (for qualified plans)

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.

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### 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)

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#### 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 (less than one year 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**

For illustrative purposes only.

**Example: Long-Term Gains or Losses**

For illustrative purposes only.
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 overhauled IRS Form 1040 tax return alters some of the prior filing rules. 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>Grant Date/Beginning of Offering Period</th>
<th>Purchase Date</th>
<th>Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016</td>
<td>2/3/2017</td>
<td>1/2/2018</td>
</tr>
</tbody>
</table>

For Example:
Grant date/beginning of offering period: 1/1/2016
Date shares purchased for you: 2/3/2017
Date you sold these shares: 1/2/2018

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