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

Upon selling shares acquired from a nonqualified employee stock purchase plan (ESPP), you may have capital gains or losses to report. The discount on nonqualified ESPP shares is taxed as ordinary income at the time of purchase. Follow the steps outlined in this document to help you determine tax-reporting requirements.
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 review this Tax Guide.

Qualified ESPP

What is a qualified ESPP?
A Section 423 ESPP is qualified under the U.S. tax code and has a different tax treatment for the discount at the time of purchase.

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 click here to review the Qualified ESPP Tax Guide.
# 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 (or 1099-MISC if you are a nonemployee)</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 <a href="http://Fidelity.com/taxforms">Fidelity.com/taxforms</a> 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 (Fidelity is providing you with additional information to supplement your 1099-B due to cost basis regulations that no longer permit brokers to include ordinary income.)</td>
<td>You can access the form by logging in to <a href="http://Fidelity.com/taxforms">Fidelity.com/taxforms</a> at the end of January. In addition, a form will be mailed to you no later than mid-February, if applicable.</td>
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</tbody>
</table>

Participant uses these Fidelity forms…

- Form 1099-B
- Form 8949
- Schedule D
- Schedule 1
- Form 1040

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2 Report your ordinary income.

In the year of purchase, your company may report your ESPP income based on the difference between the fair market value of the stock on the date of purchase and your discounted purchase price, which is also known as the spread. 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 in the year of purchase. 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 Nonqualified ESPP and Form 1040

<table>
<thead>
<tr>
<th>a Employee's social security number</th>
<th>b Employer identification number (EIN)</th>
<th>c Employee's name, address, and ZIP code</th>
<th>d Control number</th>
<th>e Employee's first name and initial</th>
<th>f Employee's address and ZIP code</th>
<th>g Wages, tips, other compensation</th>
<th>h Federal income tax withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Wages, tips, other compensation</td>
<td>2 Federal income tax withheld</td>
<td>3 Social security wages</td>
<td>4 Social security tax withheld</td>
<td>5 Medicare wages and tips</td>
<td>6 Medicare tax withheld</td>
<td>7 Social security tips</td>
<td>8 Allocated tips</td>
</tr>
<tr>
<td>9 Nonqualified plans</td>
<td>10 Dependent care benefits</td>
<td>11 Ordinary dividends</td>
<td>12 Total income</td>
<td>13 Ordinary income tax withheld</td>
<td>14 Federal taxes withheld</td>
<td>15 Social security tax withheld</td>
<td>16 Medicare tax withheld</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The spread from your ESPP purchase is coded here as a “V”. Please note: This income is already part of the income reported in the related other boxes and is not separately reported on your tax return.

ESPP income will usually be included with your other compensation in boxes 1, 3 (up to maximum wage base), and 5 (in the year of purchase).

ESPP income could be included in boxes 16, 17, 18, and 19 if state and local taxes apply.

Federal taxes withheld are included in boxes 2 and 6 and in box 4 up to the maximum wage base.

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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

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**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)**
Assemble information on the purchase and sale of your stock.

Example: 2018 Supplemental Information Form

For illustrative purposes only.

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 information from IRS Form 1099-B and Fidelity’s Supplemental Information Form to complete IRS Form 8949.

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)

### Use the information from IRS Form 1099-B and Fidelity’s Supplemental Information Form to complete IRS Form 8949

#### Example: ESPP Purchase and Hold with sale after holding less than one year (short term)

<table>
<thead>
<tr>
<th>Form</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8949</td>
<td>Sales and Other Dispositions of Capital Assets</td>
</tr>
</tbody>
</table>

#### Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually 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). For long-term transactions, see page 2.

- **Notes:** You may aggregate all short-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 1a. If 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 for one or more of the boxes, complete as many forms with the same box checked as you need.

- **(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS**
- **(B) Short-term transactions not reported on Form(s) 1099-B showing basis wasn’t reported to the IRS**
- **(C) Short-term transactions not reported to you on Form 1099-B**

#### To complete Form 8949

1. **On Form 1099-B:**
   - If basis is in Box 1a (even if basis is incorrect), check Box A here.
   - If no basis or “0” appears in Box 1a, check Box B here.

2. **In Box 1a:**
   - Description of property (example: 1099-C or X12 Co.)
   - Date acquired (MM, dd, yyyy)
   - Date and or disposition of (MM, dd, yyyy)
   - Gross proceeds from sale (Box 1c on Form 1099-B)
   - Fidelity subtracts commissions and fees from the proceeds.

3. **Exercise date (Box 1b on Form 1099-B)**

4. **Data stock sold (Box 1c on Form 1099-B)**

5. **Columns (a): Basis in Box 1a of 1099-B**
   - Column (f): Code B
   - Column (g): Omitted amount (see instructions)
   - Column (h): Omitted amount (see instructions)
   - Column (i): Adjusted cost basis (see instructions)

6. **Adjustment, if any, to gain or loss**
   - If you enter an amount in column (g), enter a note in column (i).
   - See the separate instructions.

7. **Basis in Box 1e of 1099-B is too low or blank**
   - If Box A is checked:
   - Column (e): Basis in Box 1a of 1099-B
   - Column (f): Code B
   - Column (g): Omitted amount (see instructions)
   - Column (h): Omitted amount (see instructions)
   - Column (i): Adjusted cost basis (see instructions)

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

*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 nonqualified ESPPs, this spread appears on your W-2 in Box 12 (Code V).**

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4 Use the information from IRS Form 1099-B and Fidelity’s Supplemental Information Form to complete IRS Form 8949.

Example: ESPP Purchase and Hold with sale after holding one year (long 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)

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

Example: Long-Term Gains or Losses
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: How is the tax withholding determined on a purchase?
A: The taxes that are withheld from a purchase are determined by your employer and based on the rules for supplemental wage income. The spread on the purchase is considered ordinary compensation income, and tax withholding is generally required at the time of purchase. Therefore, it is the responsibility of your employer to manage the tax percentage due and amounts withheld from your transaction.

Q: I already paid taxes on my purchase. Why did you send me a tax form related to my purchase and do I need to include it on my return?
A: All information on your Fidelity tax form will need to be included on your tax return. Any taxes that were withheld at the time of purchase will be included on your W-2 or 1099-MISC from your employer. The amount withheld is usually based on a minimum required withholding percentage set by tax laws and is just an estimate of your liability on this transaction. When you complete your tax return, you reconcile with the IRS your actual tax liability. This means that you can possibly owe more taxes or you may get a refund. This income at purchase is also part of your cost basis in reporting your capital gain/loss on Form 8949.

Q: Why do my tax forms show a capital loss from my purchase?
A: Generally speaking, a loss on Forms 1099-B and 8949 is usually a result of any market-related loss on the stock sale and/or any commissions and fees charged.

Q: What is a wash sale?
A: A wash sale occurs when you sell shares at a loss and buy additional shares of the same or substantially identical security within a 61-day period, beginning 30 days before the sale and ending 30 days after the sale, including the date of the sale. If the sale results in a wash sale, generally, you will not be able to deduct the resulting loss. Instead, the loss and the holding period will be carried over to increase the basis of the new shares. For assistance with completing your tax return, please consult your tax advisor.

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.
Your Employee Stock Purchase Plan (for nonqualified plans)

For specifics on what your company uses as fair market value, please see your plan documents, as the fair market value may vary.

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