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

Incentive Stock Option (ISO) plans can provide you with the benefit of favorable capital gains, but can be complicated with respect to taxes. Follow the steps outlined in this document to help you determine the IRS tax-reporting requirements. If you are unsure whether your options are ISOs, you can easily determine this by looking up your grant type on NetBenefits®, under your Plan Summary page.
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 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 <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>2019 Supplemental Information</td>
<td>(Fidelity is providing you with additional information to supplement your 1099-B due to IRS cost basis regulations that no longer permit brokers to include ordinary income.)</td>
<td></td>
</tr>
<tr>
<td></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>
</tbody>
</table>

Participant uses these Fidelity forms...

- **Form 1099-B**
  - Supplemental Information form
  - Complete...

- **Form 8949**
  - Rolls up into

- **Schedule D**
  - Rolls up into

- **Form 1040**

*Fidelity is not involved in the preparation of the content supplied at the third-party unaffiliated website and does not guarantee or assume any responsibility for its content.*
2 Report your ordinary income.

Generally, you will owe ordinary income tax on the sale of shares that were acquired from the exercise of an ISO when your stock sale is considered a disqualifying disposition. Note that alternative minimum tax (AMT) may apply when you hold the ISO shares through the calendar year of exercise. You should consult a tax advisor regarding your personal tax situation.

The income triggered by the sale of shares acquired from ISOs may be taxable in full or in part as ordinary income and reported on your W-2 provided by your company. However, with ISOs, you have no tax withholding and no Social Security or Medicare tax. In addition, you may owe tax on any capital gains resulting from the sale of your stock from the exercise, which is explained in later steps.

Example: IRS W-2 for ISO and Form 1040

For illustrative purposes only.

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†ISOs have no tax withholding and no Social Security or Medicare tax. Income is reported on Form W-2 only with a disqualifying disposition.

ISO income is included in boxes 16 and 18 if state and local taxes apply.

W-2 income is reported on line 1 of Form 1040.

The amount of ISO income is included in box 1.
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 (your company’s ticker/trading symbol)</th>
<th>Quantity (number of shares sold)</th>
<th>Date Acquired (date you exercised the grant)</th>
<th>Date Sold or Disposed</th>
<th>Proceeds (gross proceeds from stock sale)</th>
<th>Cost or Other Basis (this is provided to the IRS, as directed, and may need to be adjusted—see the Supplemental form)</th>
<th>Gain/Loss (from the proceeds of the sale and may also need to be adjusted—see the Supplemental form)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FORM 1099-B*</td>
<td>2019 Proceeds from Broker and Barter Exchange Transactions</td>
<td>parcel for Recipient OMB No. 1545-07/15</td>
<td>Short-term transactions for which basis is reported to the IRS—report on Form 8949 with Box A checked and/or Schedule D, Part I (IRS Form 1099-B box numbers are shown below in bold type)</td>
<td>1a Description of property, Stock or Other Symbol, CUSIP</td>
<td>1b Date Acquired</td>
<td>1c Date Sold or Disposed</td>
</tr>
<tr>
<td>Sale</td>
<td>27,000</td>
<td>05/29/19</td>
<td>05/29/19</td>
<td>1,373.49</td>
<td>571.05(e)</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTALS</td>
<td></td>
<td></td>
<td></td>
<td>1,373.49</td>
<td>571.05</td>
<td>0.00</td>
</tr>
</tbody>
</table>

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

Example: 2019 Supplemental Information form

<table>
<thead>
<tr>
<th>Grant Type (w)</th>
<th>Quantity</th>
<th>Date of Acquisition (x)</th>
<th>Date Sold or Disposed</th>
<th>Proceeds</th>
<th>Ordinary Income Reported (y)</th>
<th>Adjusted Cost or Other Basis (z)</th>
<th>Wash Sale Loss Disallowed</th>
<th>Adjusted Gain/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSU</td>
<td>58,000</td>
<td>02/27/19</td>
<td>02/28/19</td>
<td>3,091.71</td>
<td>3,068.20</td>
<td>3,068.20</td>
<td>0.00</td>
<td>23.51</td>
</tr>
<tr>
<td>RSU</td>
<td>79,000</td>
<td>05/01/19</td>
<td>05/02/19</td>
<td>3,437.37</td>
<td>3,481.53</td>
<td>3,481.53</td>
<td>44.16</td>
<td>-44.16</td>
</tr>
<tr>
<td>RSU</td>
<td>13,000</td>
<td>02/27/19</td>
<td>05/28/19</td>
<td>701.59</td>
<td>687.70</td>
<td>687.70</td>
<td>0.00</td>
<td>13.89</td>
</tr>
<tr>
<td>RSU</td>
<td>37,000</td>
<td>02/27/19</td>
<td>05/29/19</td>
<td>1,996.84</td>
<td>1,957.30</td>
<td>1,957.30</td>
<td>0.00</td>
<td>39.54</td>
</tr>
<tr>
<td>RSU</td>
<td>32,000</td>
<td>02/27/19</td>
<td>05/28/19</td>
<td>1,727.00</td>
<td>1,692.80</td>
<td>1,692.80</td>
<td>0.00</td>
<td>34.20</td>
</tr>
<tr>
<td>RSU</td>
<td>100,000</td>
<td>05/01/19</td>
<td>05/28/19</td>
<td>5,363.93</td>
<td>4,407.00</td>
<td>4,407.00</td>
<td>0.00</td>
<td>956.93</td>
</tr>
<tr>
<td>RSU</td>
<td>6,000</td>
<td>05/01/19</td>
<td>05/28/19</td>
<td>323.81</td>
<td>264.42</td>
<td>264.42</td>
<td>0.00</td>
<td>59.39</td>
</tr>
<tr>
<td>QSOPI</td>
<td>6,000</td>
<td>05/28/19</td>
<td>05/29/19</td>
<td>1,373.49</td>
<td>836.23</td>
<td>1,407.28</td>
<td>0.00</td>
<td>-33.79</td>
</tr>
</tbody>
</table>

**Totals**

- **Short-Term Adjusted Realized Gain**: 1,127.46
- **Short-Term Adjusted Realized Loss**: -77.95
- **Wash Sale Loss Disallowed**: 44.16

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)
Use the forms to calculate your capital gains and/or losses on IRS Form 8949.

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. Your holding period begins on the day after you exercised your option.

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.

*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.

Example: ISO exercise and subsequent sale within one year as a disqualifying disposition (Short-Term)

To complete Form 8949 and Schedule D, you need to know:
- Which shares you sold from which grant
- When you acquired those shares (i.e., the exercise date)
- The fair market value of the stock at exercise
- The date of sale
- The sale price and whether it is net of commission
- Your cost basis
- Amount of ordinary income (from the Supplemental form)
Use the forms to calculate your capital gains and/or losses on IRS Form 8949.

Example: ISO exercise and subsequent sale after one year (but less than two years from grant) as a disqualifying disposition (Long-Term)

To complete Form 8949 and Schedule D, you need to know:

- Which shares you sold from which grant
- When you acquired those shares (i.e., the exercise date)
- The fair market value of the stock at exercise
- The date of sale
- The sale price and whether it is net of commission
- Your cost basis
- Amount of ordinary income (from the Supplemental form)
4 Use the forms to calculate your capital gains and/or losses on IRS Form 8949.

Example: ISO exercise and subsequent sale after one year (and more than two years from grant) as a qualifying disposition (Long-Term)

To complete Form 8949 and Schedule D, you need to know:

- Which shares you sold from which grant
- When you acquired those shares (i.e., the exercise date)
- The fair market value of the stock at exercise
- The date of sale
- The sale price and whether it is net of commission
- Your cost basis
- Amount of ordinary income (from the Supplemental form)
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 it was sold).

Example: Short-Term Gains or Losses

<table>
<thead>
<tr>
<th>Part I</th>
<th>Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b.</td>
</tr>
<tr>
<td>1b</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box A checked</td>
</tr>
<tr>
<td>2</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box B checked</td>
</tr>
<tr>
<td>3</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box C checked</td>
</tr>
<tr>
<td>4</td>
<td>Short-term gain (or loss) from Form(s) 8949 and short-term gain or (loss) from Forms 4797, 6781, and 5624</td>
</tr>
<tr>
<td>5</td>
<td>Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule K-1</td>
</tr>
</tbody>
</table>

The totals of all stock sales NOT appearing on Form 8949 because the correct basis was reported to the IRS on Form 1099-B (i.e., no adjustments were needed) go on this line.

The total from Schedule D is entered on line 6 of Form 1040.

Example: Long-Term Gains or Losses

<table>
<thead>
<tr>
<th>Part II</th>
<th>Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>8a</td>
<td>Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b.</td>
</tr>
<tr>
<td>8b</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box D checked</td>
</tr>
<tr>
<td>9</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box E checked</td>
</tr>
<tr>
<td>10</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box F checked</td>
</tr>
<tr>
<td>11</td>
<td>Gain from Form 4797, Part I: long-term gain from Form(s) 4797, line 6 and (or) long-term gain or (loss) from Forms 4849, 6781, and 5624</td>
</tr>
<tr>
<td>12</td>
<td>Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule K-1</td>
</tr>
<tr>
<td>13</td>
<td>Capital gain distributions. See the instructions</td>
</tr>
</tbody>
</table>

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 2019 IRS Form 1040 tax return alters some of the prior filing rules, including those of capital gains or losses. For additional information, please review the content at What’s New This Tax Season?

Q: How do the tax implications of an ISO differ from those of a nonqualified stock option (NSO)?

A: An ISO can potentially receive beneficial tax treatment. You will not be subject to tax at the time of exercise of an ISO. However, the difference between the fair market value of the stock at exercise and the amount you paid for the stock will be treated as taxable income for alternative minimum tax (AMT) purposes when you hold the shares through the calendar year of the exercise. When you sell shares acquired by exercise of an ISO, your gain (or loss) will be treated as a capital gain (or loss), provided the shares are held for more than one year from the exercise date and two years from the grant date.

When shares are not held long enough, the amount of ordinary income depends on the sale price relative to the market price on the exercise date. If ISO shares exercised are held for the entire holding period, then the entire amount of any gain (or loss) over the exercise price will be treated as a capital gain upon the subsequent sale of those shares (generally, a long-term capital gain, given the holding period requirement for ISOs), and taxed at the favorable rates applicable to capital gains, rather than as ordinary income.*

In contrast, when you exercise an NSO, the difference between the fair market value of the stock at the time of exercise and your exercise cost will be treated as ordinary compensation income, and your employer will generally be required to withhold taxes at the time of your exercise. Upon your sale of the stock (whether at the time of exercise or some later date), your gain or loss (the sale proceeds minus your adjusted basis in the stock) will be subject to tax as a capital gain (or loss).

Q: What is alternative minimum tax, or AMT?

A: Congress created the AMT as an alternative form of federal income taxation to ensure that wealthy individuals and corporate taxpayers pay a fair share of federal income taxes. Its reach, however, now sometimes extends beyond the wealthy.

The AMT is a tax system that works in parallel with the regular federal income tax system—while some taxpayers use the regular system, others must use the AMT system. The AMT has its own set of forms, rates, rules, and brackets. It requires taxpayers to calculate their federal income tax using both systems and then pay the higher amount.

*Please see a tax advisor as to your specific tax amounts due.
Frequently Asked Questions

For important developments with the AMT and its tax-return reporting, see What’s New This Tax Season?

Exercising ISOs that are “deep in the money” (on which gain at exercise is usually deferrable and taxed as capital gain income at the time of sale) can potentially subject an individual to AMT. Once you have triggered the AMT for your ISO exercise, you will have an AMT credit and will also need to follow special reporting rules when you sell the ISO stock. You will want to discuss this with a qualified tax advisor to see if this applies to you.

Q: What is the difference between “qualified disposition” and “disqualified disposition,” with respect to an ISO?

A: Your ISO plan qualifies for special tax treatment if you hold your shares for a certain period of time.

Qualified Disposition:
Favorable tax treatment is received when two time periods are met. First, the shares you acquired must be sold more than two years from the grant date.† Second, the sale must occur more than one year after the exercise date of the option.

Disqualified Disposition:
This occurs when you sell the shares acquired within the first two years of the grant date or less than one year from the exercise date.

When did you exercise your options and when did you sell those shares?

For Example:
Grant date: 1/1/2018
Date you exercised your options: 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 exercise date.

†If you are unsure of the grant date, check your account on the NetBenefits website for your grant details.
Frequently Asked Questions

Q: Why do my tax forms show a capital loss from my exercise?

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. Sales of stock received in an ISO exercise raise additional issues under the wash sale rules when the sale price is above the exercise price but below the market price at exercise. 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.