Your restricted stock or performance stock (RSPS)

Reporting the release and sale of shares on your 2019 tax return

A step-by-step tax guide

This document provides information about US federal income tax reporting requirements that may apply when you acquire or dispose of shares received as part of a restricted stock or performance stock award (i.e., restricted stock award (RSA), restricted stock unit (RSU), performance stock award (PSA), or performance stock unit (PSU)). Generally, your restricted or performance stock awards are considered ordinary (compensation) income to you and taxable in the year your grant vests and/or shares are delivered to you, unless there is a deferral feature.

HELPFUL TIP:

The compensation income amount should be included in the Form W-2 you receive from your employer or a 1099-MISC from the company if you are a non-employee. Any capital gain or loss amount may also be reportable on your US Individual Income Tax Return (Form 1040), Schedule D and Form 8949 in the year of sale.
**STEP ONE**

**Gather the required tax documents**

Documents provided by:

<table>
<thead>
<tr>
<th>Your employer</th>
<th>E*TRADE</th>
<th>IRS</th>
</tr>
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<tbody>
<tr>
<td><strong>Form(s) W-2 or 1099-MISC</strong> for current and/or past years, depending on whether you filed an 83(b) or 83(i) election for your restricted stock award:</td>
<td>Form 1099-B for the current year</td>
<td>IRS Form 1040</td>
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<tr>
<td>- If you filed an 83(b) election, your Form W-2 for the year in which the shares were awarded to you.</td>
<td>Stock Plan Transactions Supplement</td>
<td>IRS Form 1040 Schedule D: Capital Gains and Losses</td>
</tr>
<tr>
<td>- If you filed an 83(i) election, your Form W-2 for the year in which the shares were included in income based on the election.</td>
<td></td>
<td>IRS Form 8949 Sales and Other Dispositions of Capital Assets</td>
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<tr>
<td>- If you did not file an 83(b) or 83(i) election, your Form W-2 for the year in which the shares were released to you.</td>
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<tr>
<td><strong>Confirmation(s) of release</strong> or similar document(s) you received from your employer when you acquired the shares that were sold</td>
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* Available through the E*TRADE Tax Center at etrade.com/tax
** Available at irs.gov or by calling 800-TAX-FORM

**HELPFUL TIP:**
You can visit the Employee Stock Plan Gains & Losses page on etrade.com to find, print, and/or download important information about securities sold in your Stock Plan account. Just log on to your account, then navigate to Stock Plan > My Account > Gains and Losses.
Stock Plan Transactions Supplement

We created an informational document to assist with the review of stock plan transaction information that may need to be considered as part of your 2019 tax reporting. The Stock Plan Transactions Supplement provides information like adjusted gain/loss that may be needed to prepare your income tax return. It will be available in mid-February at etrade.com/tax.
STEP TWO

Assemble your transaction details

You will likely need the following information for each release and sale of shares. If you made a single sale that included shares acquired at different times, you will need this information for each group of shares. The steps below will help assist you with this process. Please note that not all of the items below may apply to you.

Step 2a. Release date

This is the date your company released the restricted stock or performance stock to you. The release date is displayed as Date Acquired on Box 1b of Form 1099-B. This information is also included in the Stock Plan Transactions Supplement under the “Date Acquired” column. Tax software may ask for “Date of Acquisition.”

WHERE TO FIND IT:
On your 1099-B from E*TRADE in mid-February at etrade.com/tax.
**Step 2b. Sale date**

This is the date you sold the shares. You should have received a trade confirmation from E*TRADE for this transaction. Sale date is displayed as “Date Sold or Disposed” on Box 1c of Form 1099-B. The information on the 1099-B is also included in the Stock Plan Transactions Supplement under the “Date Sold or Disposed” column. Tax software may ask for “Date of sale or exchange.”

WHERE TO FIND IT:

On your 1099-B from E*TRADE in mid-February at etrade.com/tax.
Step 2c. Amount paid for the stock you sold

Often restricted stock or performance stock is awarded at no cost; however, if there is an associated cost it would be reported here. Shortly after the purchase, you should have received a confirmation of release or similar document from your employer. This document should show the award price. This information is also displayed on the Stock Plan Transactions Supplement under the “Cost Basis” column. Tax software may ask for “Exercise price paid” or “Cost or other basis.”

WHERE TO FIND IT:
On your confirmation of release from your employer (if applicable). If your employer provides this document to E*TRADE, you can access it on etrade.com under Stock Plan > My Account > Stock Plan Confirmations.

<table>
<thead>
<tr>
<th>Release Summary</th>
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<tbody>
<tr>
<td>Account Number</td>
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<tr>
<td>Tax Payment Method</td>
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<tr>
<td>Company Name (Symbol)</td>
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<tr>
<td>Award Number</td>
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<td>Award Date</td>
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<td>Award Type</td>
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<td>Settlement Type</td>
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<tr>
<td>Plan</td>
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<tr>
<td>Release Date</td>
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<tr>
<td>Shares Released</td>
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<tr>
<td>Cash Amount Released</td>
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<tr>
<td>Market Value Per Share</td>
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<tr>
<td>Award Price Per Share</td>
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<table>
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<tr>
<th>Release Details</th>
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<tbody>
<tr>
<td>Calculation of Gain</td>
</tr>
<tr>
<td>Market Value</td>
</tr>
<tr>
<td>Calculation of Taxes</td>
</tr>
<tr>
<td>Taxable Gain</td>
</tr>
<tr>
<td>Rate %</td>
</tr>
<tr>
<td>Amount</td>
</tr>
</tbody>
</table>
Step 2d. Adjusted cost basis

You may need to identify how much of the compensation income reported on your Form(s) W-2 is attributable to the stock you sold in order to calculate your cost basis for those shares. Keep in mind that it may be difficult to determine how much of the income in Box 1 of Form W-2 is attributable to the stock you sold, so your employer may have given you a separate statement detailing this information or may have listed this income separately for you in Box 14. If you engaged in more than one transaction during the year, you will need to know this amount for each separate transaction. You can also find this information under “Adjustment Amount (Ordinary Income)” in the Stock Plan Transactions Supplement. Tax software may ask for “Compensation income” or “Ordinary income.” Please be sure to verify the information on the Stock Plan Transactions Supplement aligns with your W-2 or other information from your employer.

WHERE TO FIND IT:
1. In Box 14 of your W-2 from your employer (if included).
**Step 2e. Sale proceeds**

Your proceeds amount is the sale price received from the sale of shares, less any applicable fees or commissions. This amount (including the commissions and fee adjustment) is displayed **Box 1d** on the Form **1099-B** you received from E*TRADE as well as in the Stock Plan Transactions Supplement under “Total Proceeds.”

**WHERE TO FIND IT:**
On your **1099-B** from E*TRADE in mid-February at etrade.com/tax.
Report your ordinary income

Any ordinary income resulting from the vesting or award (if you filed an 83(b) election) or deferral (if you filed an 83(i) election) of your restricted or performance stock should be reported in Box 1 of your Form W-2 or Box 7 of your 1099-MISC and may also be separately detailed in Box 14.

WHERE TO FIND IT:
1. In Box 14 of your W-2 from your employer (if included).
STEP FOUR

Report your capital gains/losses

The capital gain or loss resulting from the sale of your restricted stock or performance stock may also be reportable on your US Individual Income Tax Return (Form 1040), Schedule D and Form 8949 in the year of sale.

Cost basis and other information related to your transaction resulting in capital gain or loss are reported on IRS Schedule D and IRS Form 8949, and is a part of providing information to most tax softwares. You can download a copy of Form 8949 and instructions from the IRS website at [irs.gov/uac/About-Form-8949](https://irs.gov/uac/About-Form-8949). If you have any questions about the timing of ordinary income, your adjusted cost basis for your shares or your income tax return, consult your tax advisor. For additional information about your stock plan transactions that is not included on your 1099-B, including information that may impact your cost basis adjustments, refer to the E*TRADE Stock Plan Transactions Supplement, which can be found at [etrade.com/tax](https://etrade.com/tax).

WHERE TO FIND IT:
Stock Plan Transactions Supplement can be found under Tax Documents in mid-February at [etrade.com/tax](https://etrade.com/tax).
A note about wash sales

A wash sale occurs when an investor sells or trades stock at a loss and, within 30 days before or after the sale, acquires substantially identical securities in a fully taxable trade or acquires a contract or option to buy substantially identical securities.

If the sale is considered a wash sale, you will not be able to claim the loss from that sale. However, you may be allowed to increase your cost basis in your newly acquired shares by the amount of the loss that was disallowed. You will also be able to change the holding date for those newly acquired shares to reflect the holding date for the shares you sold, so that you are credited appropriately for the time you held those shares.

For more information on wash sales, see IRS Publication 550 or consult your tax advisor.
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FAQ

Frequently asked questions

What is restricted stock?

In an equity compensation context, restricted stock generally refers to restricted stock awards and restricted stock units. A restricted stock award is stock that is issued to employees (and directors or other independent contractors) but is subject to certain temporary restrictions. The most common of these is that the stock must be returned to the employer (i.e., forfeited) if employment is terminated prior to a specified date. Further, the stock is generally non-sellable and non-transferable during the period of the restriction. Restricted stock units are similar to restricted stock awards, but the stock is not issued until the units are converted into shares after vesting. Because the stock is not issued prior to vesting, recipients do not hold voting or dividend rights in the stock prior to vesting.

What is performance stock?

In an equity compensation context, performance stock generally refers to performance stock awards and performance stock units. A performance stock award is a type of restricted stock award in which rights to the shares are contingent upon the achievement of certain pre-established performance goals. If the performance goals are met, the employee has a right to receive stock associated with the award.

When is ordinary (reported on Form W-2 or 1099-MISC) income for the stock award recognized?

Generally, a restricted or performance stock award is taxable as ordinary income at the time that the award vests. The amount of income will typically be the difference between the value of the stock at the time of vesting over the amount paid for the stock, if any. The ordinary income
recognition may be accelerated to the issue date with a timely Section 83(b) election (see below) or deferred with a timely Section 83(i) election.

EXAMPLE: Jane Doe is awarded 1,000 shares of restricted stock on December 5, 2016. She does not file a Section 83(b) election. The stock vests in three years on December 5, 2019 when it is trading at $30 per share. She will recognize $30,000 in ordinary income in 2019.

Can I elect to report the receipt of restricted stock as ordinary income when the shares are granted rather than in the future when they vest?

Yes. To do this, you will need to file a Section 83(b) election with the IRS within 30 days of the award date. Section 83(b) of the Internal Revenue Code permits an employee to elect to pay income tax on the fair market value of restricted stock (in excess of its cost, if any) in the year it is awarded, even though the stock may not be vested and is subject to substantial risk of forfeiture. The election must be filed with the IRS and your employer must be given a copy.

EXAMPLE: Jane Doe is given 1,000 shares of restricted stock on December 5, 2014, when the stock is trading at $10 per share. Within 30 days, she files a Section 83(b) election with the IRS. She will recognize $10,000 of ordinary income in 2014.

How will my employer report ordinary income from the restricted stock or performance stock award?

Your employer should report the ordinary income on your Form W-2, Wage, and Tax Statement. It should be included in Box 1 as part of your total wages and compensation, Box 3 (Social Security wages) as applicable, and Box 5 (Medicare wages). Also, your employer may include it in Box 14. In the case of non-employees, the income will be reported on Form 1099-MISC in Box 7.
FAQ continued

Does the cost basis for the stock award appear on the Form 1099-B?

No, since restricted and performance awards generally involve non-covered securities, cost basis will not be reported on Form 1099-B for those awards.

What is my cost basis for the restricted stock or performance stock?

Your total cost basis for the stock is equal to your acquisition cost—the amount you paid for the stock, if any—plus the amount of ordinary income you recognized with respect to those shares. You may want to consider whether an adjustment to the cost basis is applicable when you complete your tax return(s). For additional information on your cost basis and possible cost basis adjustments, refer to the Stock Plan Transactions Supplement available through E*TRADE Securities. This can be found at etrade.com/tax. Please also consult your tax advisor.

How do I calculate capital gain or loss from my sale of restricted or performance stock?

If you did not file either a Section 83(b) or 83(i) election, any appreciation or depreciation in the value of the stock from the vesting date through the sale date could be capital gain or capital loss, respectively. If you did file an 83(b) election, any appreciation or depreciation from the award date through the sale date could be capital gain or capital loss, respectively. If you filed an 83(i) election, the holding period for capital gain begins on the date the stock eligible for this type of election (qualified stock) is converted to deferral stock (stock being deferred).

EXAMPLE: Jane Doe is awarded 1,000 shares of restricted stock on December 5, 2015. She does not file a Section 83(b) election. The stock vests in three years on December 5, 2018, when it is trading at $30 per share. On December 31, 2019, she sells the shares for $40 per share. Jane recognizes $30,000 in ordinary income in 2018. For 2019, Jane has a long-term capital gain (see definition below) of $10,000 (($40 x 1,000) minus an adjusted cost basis of $30,000).
If Jane made a timely Section 83(b) election in 2013 and the stock had a fair market value of $20 per share at the time the award was made, she would recognize $20,000 of ordinary income in 2012. For 2018, Jane would have a long-term capital gain of $20,000 (($40 x 1,000) minus an adjusted cost basis of $20,000).

If I sell my restricted stock or performance stock immediately once its restrictions lapse, do I need to report the sale on my tax return?

Yes. Even though the income recognized from the restricted stock or performance stock will be included on Form W-2, the sale of the stock is a separate transaction for tax purposes. In most cases, the sale would need to be reported on Form 1040, Schedule D and Form 8949.

In determining whether the sale of the restricted stock or performance stock generated a short- or long-term capital gain or loss, when does the holding period begin: when the stock was issued to me or when it vested?

In most cases, the holding period for restricted or performance stock awards begins when the shares vest. Therefore, you would need to hold the shares for more than a year after vest for any gains to qualify for long-term capital gains treatment. In the case of restricted or performance stock units, the holding period begins when the stock is released to you, which may be after the vesting date. In the case of a Section 83(b) election, the holding period begins on the date when the stock is awarded, rather than the date when it vests or is released to you. When a Section 83(i) election has been made, the holding period for capital gain begins on the date the stock eligible for this type of election (qualified stock) is converted to deferral stock (stock being deferred).
Need more information?

For more information regarding the possible tax implications of the acquisition and/or sale of your restricted or performance stock contact your employer or your tax advisor. You can learn more about reporting acquisition or disposition of restricted or performance stock on your tax return at irs.gov (search for “restricted stock” or “performance stock”). You can also find more tax resources in the E*TRADE Stock Plan Tax Center at etrade.com/stockplantax.

This information should not be construed as legal, accounting, or tax advice. You should review your personal circumstances with your legal, accounting, or tax advisor. E*TRADE Financial Corporation, its subsidiaries and affiliates including E*TRADE Financial Corporate Services, Inc. and E*TRADE Securities LLC, and their employees do not provide legal, accounting or tax advice.
RSPS
An easy, step-by-step guide

STEP ONE

STEP TWO

STEP THREE

STEP FOUR

FAQ

1. Cost basis is reported to the IRS for Covered Securities only. Different securities classes are considered “Covered” securities in accordance with the following phase-in schedule:

- Stocks acquired in your E*TRADE account on or after January 1, 2011 (including ESPP shares purchased after this date and stock options exercised after this date, domestic and foreign stocks, REITs, ADRs and ETFs that are not in a Regulated Investment Company (“RIC”) or connected with a Dividend Reinvestment Plan)
- Stocks in RICs acquired in your E*TRADE account on or after January 1, 2012 (including Mutual Funds and ETFs, and stocks acquired in connection with a Dividend Reinvestment Plan)
- Options, Fixed Income instruments, Derivatives, Debt instruments and other security types as specified under the regulations acquired in your E*TRADE account on or after January 1, 2014
- Please note that any stock that was acquired before January 1, 2011 is considered a “Non-covered security” and is not subject to the new cost basis reporting regulations. Restricted stock, performance stock, and shares related to stock appreciation rights are also non-covered, even if they were acquired on or after January 1, 2011

The information contained in this document applies only to persons who are subject to tax in the US and it applies only to your US federal income tax return. Purchases of stock under an employee stock plan and sales of that stock are reported differently in non-US tax jurisdictions and may be reported differently on your state income tax return. The information applies to calendar year 2018 only. Transactions that occurred in other calendar years may need to be reported differently.

The information contained in this document assumes that any fees or commissions associated with the sale are deducted from the sales proceeds reported on Form 1099-B. E*TRADE Securities LLC always deducts the fees and commissions from the sales proceeds reported on your Form 1099-B; consult a tax advisor if your broker did not.

The information contained in this document assumes that your employer has properly reported the income from your exercise and sale on your Form W-2. If your employer did not do this, or if you have any questions concerning the information on your Form W-2, you should consult your employer and/or tax advisor.

The information published herein is of a general nature and has been summarized for presentation to a large audience. It is not a complete discussion of all aspects of the laws, rules, regulations, standards, and principles that govern how employee stock option information is reported on tax documents provided to you and how it should be reported on your tax return. The contents are neither designed nor intended to be relied upon, and should not be considered legal, accounting or tax advice. Your specific situation may involve circumstances that cause the laws, rules, regulations, standards, and principles described herein to apply differently. You should consult your own legal, accounting and tax advisors before deciding what, if any, course of action to take.

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