This document provides information about U.S. federal income tax reporting requirements that may apply when you make a disposition of shares acquired through a qualified or non-qualified employee stock purchase plan (ESPP). Income related to those shares should be included in the Form W-2 you receive from your employer or 1099-MISC if you are a non-employee. The sale of the shares is also reportable on your U.S. Individual Income Tax Return (Form 1040), Schedule D and Form 8949.

The discussion that follows provides some general guidelines for U.S. taxpayers about reporting income from the disposition of stock acquired through a qualified or non-qualified employee stock purchase plan. This discussion 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 its employees do not provide legal, accounting or tax advice.

Before You Begin
You will need the following information for each sale of shares. If you made a single sale that included shares bought at different times, you will need this information for each group of shares.

WHAT WAS THE PURCHASE DATE?
Generally, this is the end of the plan’s purchase period in which you bought the shares. Purchase date is displayed as Date Acquired on Form 1099-B provided by E*TRADE and on the Stock Plan Gains & Losses page on etrade.com. Purchase date is reported to the IRS only for covered securities.

WHAT WAS THE DATE OF THE SALE?
This is the day you sold your shares. You should have received a confirmation for this transaction. Sale date is displayed as Date Sold or Disposed on Form 1099-B provided by E*TRADE and on the Stock Plan Gains & Losses page on etrade.com. Sale date and proceeds are reported to the IRS for both covered and non-covered securities.

What You Need

• Your Form(s) W-2 or 1099-MISC for current and/or past years, issued to you by your employer
• Form 1099-B for the current year, issued to you by E*TRADE
• IRS Form 1040 (the full 1040, not the 1040EZ or the 1040A)
• IRS Form 1040 Schedule D: Capital Gains and Losses
• IRS Form 8949 Sales and Other Dispositions of Capital Assets
• Form 3922 or your purchase confirmation or similar document you received from your employer when you acquired the shares through the ESPP

Note: 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. To access this page, log on to etrade.com, then navigate to Accounts > My Stock Plan > Gains & Losses, or go directly to www.etrade.com/spgains. IRS forms are available online at www.irs.gov, by calling 800-TAX-FORM (800-829-3676) or by visiting your local IRS office.
HOW MUCH DID YOU PAY FOR THE STOCK THAT YOU SOLD?
This is your purchase price. Shortly after your purchase was completed, you should have received a purchase confirmation or similar document from your employer. Form 3922 may also be issued by your employer, typically in January of the year following the sale of the stock. These documents should show the price you paid for the stock. For covered securities, your purchase price is reported to the IRS as the cost basis for the security. For both covered and non-covered securities, your purchase price is displayed as the cost basis for the security on Form 1099-B provided by E*TRADE and on the Stock Plan Gains & Losses page on etrade.com.

HOW MUCH INCOME WAS REPORTED ON YOUR FORM(S) W-2 FOR THE STOCK THAT YOU SOLD?
You will need to know how much of the income reported on your Form(s) W-2 is attributable to the stock you sold. This income is combined with your salary and other compensation in the year of purchase and/or sale.

Because it may be difficult for you to tell how much of the income in Box 1 is attributable to the stock you sold, 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 not, you will need to ask your employer how much of the income reported on your Form W-2 was derived from your ESPP shares. If you engaged in more than one transaction during the year, you will need to know this amount for each separate transaction.

If your employer’s plan is non-qualified under Section 423, you may need to refer to your Form W-2 from the year in which you acquired the shares. For non-qualified plans, ordinary income is recognized in the year of purchase. If you are unsure whether your employer’s plan is qualified or non-qualified, ask your employer.

WHAT WERE THE PROCEEDS FROM YOUR SALE?
Your proceeds amount is the sale price received from the sale of shares, less any fees or commissions applicable to the sale. This amount (including the commissions and fee adjustment) is displayed on Form 1099-B provided by E*TRADE and on the Stock Plan Gains & Losses page on etrade.com. This amount is also reported to the IRS for both covered and non-covered securities.

What is an ESPP?
An employee stock purchase plan (ESPP) provides the opportunity to use part of your compensation to purchase stock of the company where you work. In most ESPPs, the purchase price is set at a discount from the fair market value. Tax treatment for your ESPP shares depends on two factors: 1) whether your plan is qualified or non-qualified under Section 423 of the Internal Revenue Code, and 2) if the plan is qualified, whether your sale is considered a qualifying disposition or a disqualifying disposition.

Impact of a Disposition from a Qualified Plan
If the plan is qualified under Section 423 of the Internal Revenue Code, you pay no tax when you purchase the stock, even if the amount you pay is less than the current value of the stock. The tax treatment when you sell shares from a plan qualified under Section 423 depends on whether you make a qualifying disposition or a disqualifying disposition.
IMPACT OF A QUALIFYING DISPOSITION FROM A QUALIFIED PLAN

Sales of ESPP shares from a plan that is qualified under Section 423 can be considered a qualifying disposition if the following requirements are met:

1. You do not sell the shares for at least two years and one day after the ESPP enrollment date, which is generally the start of the plan period in which you bought the shares, and

2. You do not sell the shares for at least one year and one day after the date of purchase, which is generally the end of the plan period in which you bought the shares.

In most cases, selling stock in a qualifying disposition will trigger ordinary (compensation) income. If your sale price is greater than the purchase price, the amount of the ordinary income is generally the lesser of:

- the excess of the fair market value of the employer stock on the date of the beginning of the ESPP purchase period, over the discounted purchase price at the time of purchase, or
- the difference between the sale price and the purchase price.

If your qualifying disposition sale price is less than your purchase price, you will not recognize any ordinary income.

The ordinary income amount can be added to the purchase price of the stock to determine your adjusted cost basis, which is reported on Schedule D and Form 8949 of your tax return.

IMPACT OF A DISQUALIFYING DISPOSITION FROM A QUALIFIED PLAN

If you fail to satisfy either requirement described above, your sale of ESPP shares from a plan that is qualified under Section 423 is considered a disqualifying disposition.

In most cases, selling stock in a disqualifying disposition will trigger ordinary (compensation) income. The amount of the ordinary income is generally the excess of the fair market value of the employer stock on the date of the purchase, over the discounted purchase price, even if the price declined by the time the stock was sold. Note: To avoid double taxation, the ordinary income amount that was reported on Form W-2 can be noted as a cost basis adjustment on Form 8949 of your tax return.

If you have any questions about Form 8949, please consult your tax advisor. You can download a copy of the official Form 8949 and instructions from the IRS web site: https://www.irs.gov/uac/About-Form-8949.

Impact of a Disposition from a Non-Qualified Plan

If your employer’s plan is non-qualified under Section 423 of the Internal Revenue code, in the year of purchase, you may be obligated to pay income tax on the excess of the fair market value of the employer stock on the date of the purchase, over the discounted purchase price. As with the disqualifying disposition scenario noted above, to avoid double taxation, this income can be used as a cost basis adjustment on Form 8949 of your tax return.
Reporting Ordinary Income for ESPP Shares

Any ordinary income resulting from the acquisition or sale of ESPP shares should already be included in Box 1 of your Form W-2. The total amount indicated in Box 1 is reported on Line 7 of IRS Form 1040.

In addition to reporting the ordinary income in Box 1, your employer may also have listed it separately in Box 14. If not, you may need to ask your employer how much income was reported on your Form W-2 for your ESPP shares.

Reporting Capital Gain or Loss for ESPP shares

The capital gain or loss resulting from the sale of your ESPP shares may also be reportable on your U.S. Individual Income Tax Return (Form 1040), Schedule D and Form 8949. Note: To avoid double taxation, the ordinary income from the exercise that was reported on Form W-2 can be noted as a cost basis adjustment on Form 8949 of your tax return.

If you have any questions about Form 8949, consult your tax advisor. You can download a copy of the official Form 8949 and instructions from the IRS web site: https://www.irs.gov/uac/About-Form-8949.

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.

Questions and Answers

Q: When I sold my stock, my sale price was below the market value of the stock on the purchase date. Why did my company report income based on the market value?

A: When you engage in a disqualifying disposition of shares from a plan that is qualified under Section 423, your employer is required, by law, to report the difference between the market value of the stock on the purchase date and the amount you paid for the stock as ordinary income on your Form W-2. This is required even if the stock was sold for less than the market value on the purchase date. In this situation, the difference between the market value on the purchase date and your proceeds from the sale may be reportable as a capital loss.
The same is required for ESPP shares purchased from a plan that is non-qualified under Section 423. For these shares, your employer is also required to report the difference between the market value of the stock on the purchase date and the amount you paid for the stock as ordinary income on your Form W-2. This amount is reported on Form W-2 in the year of the purchase. If you sell the stock for less than the market value on the purchase date, you may be able to report the difference between the market value on the purchase date and your proceeds from the sale as a capital loss.

Q: How could I have a long-term capital gain or loss on a sale that is a disqualifying disposition?

A: Because the holding periods to qualify for favorable tax treatment under Section 423 are different than the holding period for long-term capital gains purposes, it is possible to meet the long-term capital gains holding period but still not have met the holding period for the disposition to qualify for favorable tax treatment. To qualify for favorable tax treatment under section 423, you must hold the stock for more than two years from the date you enrolled in the plan and more than one year from the date you purchased it. However, for the gain or loss on your sale to be considered long-term, you only need to hold the stock for more than one year after you purchased it. For example, an employee enrolls in his company’s qualified employee stock purchase plan on January 1, 2011 and purchases stock under the plan on June 30, 2011. For his sale to be a qualifying disposition, he must hold the stock until January 2, 2013 (more than two years after his enrollment date). But for the gain or loss on his sale to be considered long-term, he only needs to hold the stock until July 1, 2012 (more than one year after his purchase date). If he sells stock at any time between July 1, 2012 and January 1, 2013, his sale will be considered a disqualifying disposition, but any capital gain or loss reported on the sale will generally be considered long-term.

Need more information?

For more information regarding the possible tax implications of your ESPP shares contact your employer or your tax advisor. You can learn more about reporting sales of shares acquired under an employee stock purchase plan on your tax return at www.irs.gov (search for “employee stock purchase plan” or “ESPP”). You can also find more tax resources in the E*TRADE Stock Plan Tax Center at www.etrade.com/stockplantax.
Reporting the Sale of Employee Stock Purchase Plan (ESPP) Shares on Your Tax Return

PLEASE READ THE IMPORTANT DISCLOSURES BELOW.

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 U.S. and it applies only to your U.S. federal income tax return. Purchases of stock under an employee stock plan and sales of that stock are reported differently in non-U.S. tax jurisdictions and may be reported differently on your state income tax return. The information applies to calendar year 2015 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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