

# Don't overpay your taxes. Learn more about tax reporting and cost basis facts for stock plans.

As a participant in your company's stock plan program and/or employee stock purchase plan (ESPP), it's important that you understand the basics of tax reporting on these transactions to avoid overpayment. **You are responsible for accurate tax reporting to the IRS on the sale of all securities when you file your tax return.**

This document reviews all award types. Please click the links below to jump to specific sections that may pertain to your situation:

[Cost basis basics >](#)

[Cost basis calculations >](#)

[Reporting on ISOs, NQs >](#)

[Reporting on ESPPs >](#)

[Reporting on RSAs, RSUs, PSAs, PSUs >](#)

[Cost basis resources >](#)

**Please carefully review the information in this document with your tax advisor.**

## Why does cost basis matter for stock plan transactions?

Cost basis is used to compute capital gains and losses. You have to determine the correct cost basis on stock plan transactions in order to accurately file your taxes and avoid being taxed twice on the income portion included in the W-2 your company sends you.

### Cost basis for stock plan transactions

Cost basis is the price paid to acquire shares plus commissions and any fees. Stock plans enable employers to issue company stock for services rendered. Employers issue company stock as part of compensation to their employees. As a result, ordinary income (compensation) may be earned as part of the stock plan transaction.

The event that triggers the ordinary income varies and is dictated by tax law but can include grant, vest, exercise of the award, or purchase of ESPP shares and the subsequent sale or disposition of those shares. Ordinary income is a factor in determining cost basis when stock plan shares are sold.

### About the Internal Revenue Code

Since tax year 2015 regulations and moving forward, regulators require brokers to report the award price (i.e., the price at which the award was granted to you).

Brokers are not allowed to adjust the cost basis for the income portion. The responsibility to adjust now falls to you, the participant.

This means you may need to adjust your cost basis for the income portion on Form 8949 for covered securities. We will explain this in greater detail later in this document.

## Important items to consider

**If you use TurboTax® or other tax software, transactions in your Schwab Equity Award Center® account cannot be automatically downloaded into the tax software and must be entered manually.**

Keeping detailed records of transactions can help you manage your tax obligations. Schwab does not provide tax advice. Consult a tax advisor to address your specific circumstances.

Depending on your employer's relationship with Schwab, and the type of award, shares from equity award transactions may be deposited into your Schwab One® brokerage account or directly into your Equity Award Center account. If you have transactions in your Schwab One brokerage account, you will receive a 1099 Composite. If you have transactions in your Equity Award Center account, you will receive a Substitute Form 1099-B.

## What is cost basis?

**Original cost basis** is the purchase price you paid for an investment plus commissions and any fees.

**Adjusted cost basis** is the original cost basis plus any adjustments due to the following:

- Stock plan and ESPP transactions
- Corporate actions
- Wash sales
- Amortizations and accretions
- Standardized options

This fact sheet covers cost basis reporting for stock plan transactions and ESPP transactions. Learn more about cost basis at [schwab.com/costbasis](https://schwab.com/costbasis) by logging in to your account.

## What are covered and noncovered securities?

For stock plan awards, covered securities include shares acquired on or after January 1, 2011:

- Upon the exercise of an incentive (ISO) or nonqualified (NQ) stock option
- Upon the purchase of shares through an employee stock purchase plan (ESPP)

Restricted stock units (RSUs), restricted stock awards (RSAs), performance stock units (PSUs), and performance stock awards (PSAs) are typically noncovered.

**For covered securities, Schwab reports cost basis to the IRS. For noncovered securities, Schwab will not report cost basis to the IRS.**

For stock plan participants with retail account transactions, Schwab will provide cost basis for covered and noncovered securities, as available, on a Form 1099 Composite statement.

For ESPP participants, Schwab provides cost basis information on **Substitute Form 1099-B**.

Participants with multiple accounts will receive tax forms for each account. Tax forms are sent only if you had a sale transaction in your account(s).

Which values are used to calculate the cost basis of various stock plan transactions?

**Ultimately, you need to take into account taxable income and taxes already paid when determining your final cost basis. It is extremely important to understand how Schwab reports cost basis to the IRS and the adjustments to make when completing your tax return.**

Consult with a tax advisor to ensure proper reporting at tax time. For more information, log in to **Schwab.com** and go to your Equity Awards account. At the top of this page, click on the **Classic EAC** link and go to the Tax Center located under the **Education & Modeling** tab.

The following table can be used as a guide to understand the cost basis price Schwab reports to the IRS, the cost basis price Schwab provides on our tax reporting documents to you, and which equity award types require an adjustment to the cost basis reported to the IRS to account for the income portion.

### Cost basis tax reporting by equity award type

Equity award type	Cost basis price Schwab is required to report to the IRS	Cost basis price Schwab provides to participants on 1099-B portion of tax document	Will I need to adjust my cost basis on Form 8949 to account for ordinary income?
ESPPs: 423 Qualified Plan	Covered: purchase price	Purchase price	Yes, if ordinary income was reported on your W-2
Incentive Stock Options (ISOs)	Covered: award price	Award price	Yes, for stock transactions after 1/1/2015 and if ordinary income was reported on your W-2
Nonqualified Stock Options (NQs)	Covered: award price	Award price	Yes, for stock transactions after 1/1/2015
Restricted Stock Awards (RSAs)	Noncovered: cost basis not reported to IRS	FMV*	You will not need to adjust your cost basis but you will need to use Form 8949 to report cost basis and the proceeds for these transactions.
Restricted Stock Units (RSUs)	Noncovered: cost basis not reported to IRS	FMV*	You will not need to adjust your cost basis but you will need to use Form 8949 to report cost basis and the proceeds for these transactions.
Performance Stock Awards (PSAs)	Noncovered: cost basis not reported to IRS	FMV*	You will not need to adjust your cost basis but you will need to use Form 8949 to report cost basis and the proceeds for these transactions.
Performance Stock Units (PSUs)	Noncovered: cost basis not reported to IRS	FMV*	You will not need to adjust your cost basis but you will need to use Form 8949 to report cost basis and the proceeds for these transactions.

\*Fair market value (FMV) is defined by the stock plan and/or award agreement and can vary across equity award types. Typically, it is a value equal to the closing price or the average of the high and low stock prices of company common stock on the date of, or the date prior to, the taxable event. If this value cannot be determined, the purchase price is typically used.

Steps to complete your taxes for ISOs and NQs

**Step 1: Gather your tax documents and forms.**

You will need your **1099 Composite statement** (Schwab One® brokerage account tax reporting document) to complete your tax returns for stock plan transactions. In addition, you should review both your Schwab One brokerage account and your Schwab Equity Awards account for tax information.

**Step 2: Locate your cost basis information on your 1099 Composite form.**

The information can be found within the **1099-B** section and the **Realized Gain or (Loss)** section of your 1099 Composite statement. The cost basis price reported to the IRS (i.e., the award price) can be found under the 1099-B portion, and your adjusted cost basis price or fair market value (FMV) can be found under the Realized Gain or (Loss) section. The FMV price will be the price you use on **Form 8949** to adjust your cost basis. **It is important to match transactions from the 1099-B section to the Realized Gain or (Loss) section when completing Form 8949.**

On the sample form below, Schwab has indicated the areas to refer to when completing Form 8949.

**Note:** Do not use the information in this example. This sample form is not a full 1099 Composite statement, and Schwab has focused on the areas where stock plan transactions will be displayed for demonstrative purposes only.

**Sample of Form 1099-B**

	Schwab One® Account of <b>DANA JONES JOHN JONES</b>	Account Number <b>1111-9999</b>	TAX YEAR 2018 <b>FORM 1099 COMPOSITE</b>
Taxpayer ID Number: ***-**-0000		Date Prepared: January 15, 2019	
<b>Proceeds From Broker Transactions—2018 (continued)</b>			<b>Form 1099-B</b>
Department of the Treasury—Internal Revenue Service		Copy B for Recipient (OMB No. 1545-0715)	
<b>A</b> SHORT-TERM TRANSACTIONS FOR WHICH BASIS IS REPORTED TO THE IRS – Report on Form 8949, Part I, with <b>Box A</b> checked.			
1a—Description of property (Example—100sh. XYZ Co.) CUSIP Number/Symbol	1b—Date acquired  1c—Date sold or disposed	1d—Proceeds 6—Reported to IRS: Gross proceeds (except where indicated)	1e—Cost or other basis
		<b>B</b>	<b>C</b>
			1f—Accrued Market Discount 1g—Wash Sale Loss Disallowed
			Realized Gain or (Loss)
			4—Federal income tax withheld
300 * SAMPLE CORP 30246XXXX/XXYY	SS 08/18/18 10/11/18	\$ 16,965.80 \$	9,000.00 \$ \$ --
			\$ 7,965.80 \$ --
			0.00

**Section A** indicates whether the cost basis for the transaction was reported to the IRS and if the transaction is a short-term or long-term transaction.

**Section B** indicates sales proceeds reported to the IRS (proceeds from the transaction, minus commissions).

**Section C** indicates cost basis reported to the IRS.

**Sample of Realized Gain or (Loss) section:**

The **Realized Gain or (Loss)** section of the 1099 Composite statement will contain the FMV you'll use on Form 8949 to adjust the cost basis. The adjusted cost basis will include the income portion. **This is extremely important, as the tax on the income portion will be included on your W-2.** In the example form below, Schwab has indicated important areas you'll need to refer to when completing your taxes.



Schwab One® Account of  
**DANA JONES  
JOHN JONES**

Account Number  
**1111-9999**

**TAX YEAR 2018  
YEAR-END SUMMARY**

**YEAR-END SUMMARY INFORMATION IS NOT PROVIDED TO THE IRS.**

The information in this and all subsequent sections is not provided to the IRS by Charles Schwab. It is provided to you as additional tax reporting information you may need to complete your tax return. Date Prepared: January 15, 2019

**REALIZED GAIN OR (LOSS)**

The information in the following sections include all your realized gain or (loss) transactions during the tax year. They may be helpful for, but not limited to, Schedule D. Please consult with your tax advisor or financial advisor regarding specific questions.

**Short-Term Realized Gain or (Loss)**

This section is for covered securities and corresponds to transactions reported on your 1099-B as cost basis is reported to the IRS. Report on Form 8949, Part I, with Box A checked.

Description OR Option Symbol	CUSIP Number	Quantity/Par	Date Acquired	Date Sold	Total Proceeds	(-) Cost Basis Adjusted	(+) Wash Sale Loss Disallowed (-) Market Discount	(=) Realized Gain or (Loss) Adjusted
<b>D</b> SAMPLE CORP	30246XXXX	300.00 <sup>5</sup>	08/18/18	10/11/18	\$ 16,965.80	\$ 18,062.05	\$ 0.00	(1,096.25)

**E**

**Section D** Indicates the stock option symbol or description.

**Section E** Indicates the adjusted cost basis price (FMV) you will use on Form 8949.

**Step 3: Complete your IRS tax forms.**

**Sample of Form 8949**

Please follow the IRS instructions for completing Form 8949 to adjust the cost basis on covered securities, and then complete Schedule D with the totals from Form 8949.

Form <b>8949</b>	<b>Sales and Other Dispositions of Capital Assets</b>	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service	<p>► Go to <a href="http://www.irs.gov/Form8949">www.irs.gov/Form8949</a> for instructions and the latest information.</p> <p>► File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.</p>	<b>2018</b> Attachment Sequence No. <b>12A</b>
Name(s) shown on return		Social security number or taxpayer identification number

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.  
**Note:** 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; 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 (see **Note** above)
- (B)** Short-term transactions 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

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	

Steps to complete your taxes for ESPPs

**What is an employee stock purchase plan (ESPP)?**

ESPPs are covered securities as defined by the IRS. Schwab is required to report the purchase price as the cost basis on ESPP sales; Schwab does not adjust the cost basis price to account for income that may be reported on the W-2.

**ESPPs are complicated. We recommend you work closely with a tax advisor to accurately report ESPP sales on your tax returns.**

**Does the cost basis for disqualified and qualified dispositions need to be updated on Form 8949?**

Potentially. Different tax treatments may apply on disqualified and qualified dispositions. We recommend that you work closely with a tax advisor to assist in completing your tax returns.

**How do I know if I have a disqualified or a qualified disposition?**

- **Disqualified disposition:** The sale of ESPP shares **within** one year of the purchase date and/or within two years from the grant date (offering date).
- **Qualified disposition:** The sale of ESPP shares **after** one year of the purchase date and after two years of the grant date (offering date).

**Step 1: Gather your tax documents and forms.**

- **Substitute Form 1099-B:** ESPP shares are deposited to your Schwab Equity Award Center® (EAC) account.
- **Form 3922:** You may receive this form from either your employer, Schwab, or a third party.

Tax information is also accessible within your Equity Awards account. To access the Schwab Equity Award Center, log in to **Schwab.com** and select your Equity Awards account, and then select history (for transaction history), or equity details (for current positions).

**Step 2: Locate your cost basis information on your Substitute 1099-B form.**

The cost basis will be under the column for Box 1e. This is indicated by the letter “A” in the example below.

<b>Recipient Information</b> <b>Name:</b> Name <b>Address:</b> Address Line 1 Address Line 2 <b>Taxpayer ID No:</b> XXX-XX-XXXX <b>Account Number:</b> 12345		<b>Payer Information</b> <b>Name:</b> CHARLES SCHWAB & CO., INC <b>Address:</b> STOCK PLAN SVCS 9675 SCHWAB WAY LONE TREE, CO 80124 <b>Phone #:</b> (800) 654-2593 <b>Federal ID No:</b> 94-1737782		<b>1099-B</b> TAX YEAR: 2018 <b>Proceeds from Broker Transactions</b> Department of the Treasury - Internal Revenue Service Copy B for Recipient (OMB No. 1545-0715)				
Box 1a: Description of property	CUSIP	Box 1b: Date acquired	Box 1d: Proceeds	Box 1e: Cost or <b>A</b>	Box 1g: Wash sale loss disallowed	Box 5: Noncovered security	Box 4: Federal income tax withheld	Box 14: State name
Ordinary		Box 1c: Date sold or disposed	Box 6: Reported to IRS: Gross Proceeds or Net Proceeds	Box 12: Proceeds from collectibles	Box 1f: Accrued market discount	Box 7: Loss is not allowed based on amount in 1d	Box 16: State tax withheld	Box 15: State identification no.
Short-term transaction for which basis is not reported to the IRS; report on Form 8949, Part I, with Box B checked.								
31.0 SHARES OF TEST	1111111	03/16/2018	970.11	926.10		X		
		03/23/2018	GROSS					

**Step 3: Complete your IRS tax forms.**

When reporting the sale of ESPP shares to the IRS, you will complete the following:

- **Form 8949:** List the details of each ESPP sale on this form. You may need to adjust your cost basis by completing either the short-term or the long-term section, depending on your particular tax situation.
- **Form Schedule D:** List the totals from Form 8949. Enter the totals under either the long-term or short-term areas of Schedule D.

## Important wash sales information for ESPPs

You may notice some changes as it relates to adjustments on your cost basis related to wash sales. Starting January 1, 2018, Schwab will no longer be adjusting your transactions to reflect wash sales. Any adjustments made prior to January 1, 2018, will still be provided to you for your reference on your 1099, but beginning January 1, 2018, we will no longer adjust any lots for future wash sales. Please work with your tax advisor or call our Participant Services for more information on what wash sales mean for you.

## Steps to complete your taxes for RSAs, RSUs, PSAs, and PSUs

**Note:** Schwab will NOT report the cost basis information to the IRS. Schwab provides this information to you on your copy of your tax form. You are responsible for reporting the cost basis for the sale to the IRS on Form 8949 and Schedule D. The cost basis is NOT included on the copy Schwab submits to the IRS.

### Step 1: Gather your tax documents and forms.

Depending on your employer's relationship with Schwab, shares from restricted/performance stock that has vested may be deposited into your Schwab One® brokerage account or directly to your Schwab Equity Award Center® account. You will receive a separate **Substitute Form 1099-B** for transactions in your Schwab Equity Award Center account.

You will need your **1099 Composite statement** (Schwab One brokerage account tax reporting document) or your **Substitute 1099 statement** (if your restricted stock shares are sold from your EAC account) to complete your tax returns for stock plan transactions.

### Step 2: Locate your cost basis information on your Schwab tax form(s).

This information can be found within the 1099-B section of your 1099 Composite statement. For noncovered securities, the information will be available under the area of the 1099-B that is not reported to the IRS.

In the sample form below, Schwab has indicated the areas to refer to when completing Form 8949.

**Note:** Do not use the information in this example. This sample form is not a full 1099 Composite statement, and Schwab has focused on the areas where stock plan transactions will be displayed for demonstrative purposes only.

### Sample of Form 1099-B

		Schwab One® Account of <b>DANA JONES JOHN JONES</b>	Account Number <b>1111-9999</b>	<b>TAX YEAR 2018 FORM 1099 COMPOSITE</b>				
Taxpayer ID Number: ***-**-0000			Date Prepared: January 15, 2019					
<b>Proceeds From Broker Transactions—2018 (continued)</b>				<b>Form 1099-B</b>				
Department of the Treasury—Internal Revenue Service				Copy B for Recipient (OMB No. 1545-0715)				
<b>SHORT-TERM TRANSACTIONS FOR WHICH BASIS IS AVAILABLE BUT NOT REPORTED TO THE IRS</b> —Report on Form 8949, Part I, with <b>Box B</b> checked.								
1a—Description of property (Example—100sh. XYZ Co.) CUSIP Number/Symbol	1b—Date acquired	1c—Date sold or disposed	6—Reported to IRS: Gross proceeds (except where indicated)	1e—Cost or other basis	1f—Accrued Market Discount	1g—Wash Sale Loss Disallowed	Realized Gain or (Loss)	4—Federal income tax withheld
50 SAMPLE CORP 28370XXXX/XXX	R	04/27/18 09/08/18	\$ 1,828.85	\$ 1,854.98	\$ --	\$ --	(26.13)	\$ 0.00

**Section A** Indicates that the cost basis for the transaction was not reported to the IRS.

**Section B** Indicates sales proceeds reported to the IRS (proceeds from the transaction, minus commissions).

**Section C** Indicates the cost basis (FMV) you'll use when completing Form 8949. This price was not reported to the IRS and includes the income portion on your W-2.

### Step 3: Complete your IRS tax forms.

When reporting the sale of stock awards to the IRS, you will complete the following:

- **Form 8949:** List the details of each stock award sale on this form.
- **Form Schedule D:** List the totals from Form 8949. Enter the totals under either the long-term or short-term areas of Schedule D.

## Sample of Form 8949

Please follow the IRS instructions for completing Form 8949 to adjust the cost basis on noncovered securities, and then complete Schedule D with the totals from Form 8949.

Form <b>8949</b> Department of the Treasury Internal Revenue Service	<b>Sales and Other Dispositions of Capital Assets</b> ▶ Go to <a href="http://www.irs.gov/Form8949">www.irs.gov/Form8949</a> for instructions and the latest information. ▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.	OMB No. 1545-0074
		<b>2018</b> Attachment Sequence No. <b>12A</b>
Name(s) shown on return	Social security number or taxpayer identification number	

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.

Important items to consider when completing your taxes

**Stock plan transactions for covered securities that resulted in long shares (cash purchase or sell-to-cover) prior to January 1, 2015, will have an adjusted price used for the cost basis. In most cases, the cost basis price reported to the IRS will not need to be adjusted.**

If cost basis information for stock plan transactions is missing, you can update this information online. Please take one of the following actions:

- Log in to your Schwab One® brokerage account and navigate to the **Market Value** tab. From there, review the cost basis column. If the word “Missing” appears under this column, you can click it to update the cost basis information.
- Call Schwab at **1-800-654-2593** to speak with a representative who can walk you through the steps above.

In some cases, Schwab may not have the cost basis information you will need to update the missing information. Please ensure that you have your cost basis information ready before you call in.

How to view cost basis information online

### From within the Schwab Equity Award Center®

You can view cost basis information online in the **Transaction History/Statements** and **Share Holdings** sections in the Schwab Equity Award Center. To access the Schwab Equity Award Center, log in to **Schwab.com** and select your Equity Award account, and then select history (for transaction history), or equity details (for current positions).

Information used to report cost basis for stock plan and ESPP transactions (such as cost and taxable compensation) is reflected on stock plan activity statements, which are mailed to participants and are also available online via the Schwab Equity Award Center.

### From within a Schwab One brokerage account.

You can view cost basis information (adjusted cost basis) in the **History** section of your Schwab One account. Unrealized gain/loss information can be viewed in the **Positions** section.

## Resources

For questions regarding your equity awards, please contact Schwab Stock Plan Services at **1-800-654-2593**.

To learn more about cost basis for nonstock plan awards held at Schwab, visit [schwab.com/costbasis](http://schwab.com/costbasis), by logging in to your account.

**For general information about stock plan awards**, including a glossary of common terms, log in to **Schwab.com** and go to your Equity Awards account. Towards the top of this page, click on the **Classic EAC** link and go to the Tax Center located under the **Education & Modeling** tab. From there you will be directed to **myStockOptions.com**, a third-party educational resource made available to you by Schwab.

For informational purposes only. This information is not intended to provide specific regulatory, financial, tax, compliance, or legal advice. You should consult professionals in these fields to address your specific circumstance.

Third-party websites are not affiliated with Schwab. Schwab does not supervise these websites and takes no responsibility to monitor the services they provide to you.

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CC2389086 (1218-8FMV) MKT89754-06 (12/18)