Don’t overpay your taxes. Learn the 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 cost basis tax reporting on these transactions to avoid overpayment. You are responsible for the accurate reporting of cost basis 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
- Recent changes you need to be aware of
- Cost basis calculations
- Reporting on ISOs, NQs, SARs
- 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.

Recent changes you need to be aware of

About the recent changes in the IRC

For tax year 2015 and going forward, regulations now require brokers to report the award price (i.e., the price at which the award was granted to you). Brokers must also report the purchase price for ESPP as the cost basis on covered securities.

Brokers are no longer allowed to adjust the cost basis for the income portion. The responsibility to adjust now falls to you, the participant.

Going forward, you 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

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, shares from equity award transactions may be deposited into your Schwab One® retail brokerage account or directly into your Schwab Equity Award Center® account. If you have transactions in your Schwab One retail 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.

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

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.

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 stock option (NQ)
- Upon the purchase of shares through an employee stock purchase plan (ESPP)
- Upon the exercise of a stock-settled stock appreciation right (SAR)

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. 1099-B 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. With the recent changes to the Internal Revenue Code (IRC), it is extremely important to understand how Schwab is required to report 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, visit the Tax Center by logging in to Schwab Equity Award Center® and clicking on Education & Modeling > Knowledge Center > Tax Center.

The following table can be used as a guide to understanding the cost basis price Schwab is required to report 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

<table>
<thead>
<tr>
<th>Equity award type</th>
<th>Cost basis price Schwab is required to report to the IRS</th>
<th>Cost basis price Schwab provides to participants on 1099-B portion of tax document</th>
<th>Will I need to adjust my cost basis on Form 8949 to account for ordinary income?</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESPPs: 423</td>
<td>Covered: purchase price</td>
<td>Purchase price</td>
<td>Yes, if ordinary income was reported on your W-2</td>
</tr>
<tr>
<td>Qualified Plan</td>
<td>Covered: purchase price</td>
<td>Purchase price</td>
<td>Yes, if ordinary income was reported on your W-2</td>
</tr>
<tr>
<td>Incentive Stock Options (ISOs)</td>
<td>Covered: award price</td>
<td>Award price</td>
<td>Yes, for stock transactions after 1/1/2015 and if ordinary income was reported on your W-2</td>
</tr>
<tr>
<td>Nonqualified Stock Options (NQs)</td>
<td>Covered: award price</td>
<td>Award price</td>
<td>Yes, for stock transactions after 1/1/2015</td>
</tr>
<tr>
<td>Stock Appreciation Rights (SARs)</td>
<td>Covered: award price</td>
<td>Award price</td>
<td>Yes, for stock transactions after 1/1/2015</td>
</tr>
<tr>
<td>Restricted Stock Awards (RSAs)</td>
<td>Noncovered: cost basis not reported to IRS</td>
<td>FMV*</td>
<td>No</td>
</tr>
<tr>
<td>Restricted Stock Units (RSUs)</td>
<td>Noncovered: cost basis not reported to IRS</td>
<td>FMV*</td>
<td>No</td>
</tr>
<tr>
<td>Performance Stock Awards (PSAs)</td>
<td>Noncovered: cost basis not reported to IRS</td>
<td>FMV*</td>
<td>No</td>
</tr>
<tr>
<td>Performance Stock Units (PSUs)</td>
<td>Noncovered: cost basis not reported to IRS</td>
<td>FMV*</td>
<td>No</td>
</tr>
</tbody>
</table>

*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 used.
Steps to complete your taxes for ISOs, NQs, and SARs

**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. Tax information is also accessible within the Schwab One brokerage account and/or the Schwab Equity Award Center® (EAC) account.

**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**

![Sample of Form 1099-B](image)

Section A indicates whether the cost basis for the transaction was reported to the IRS.

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.

**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.

**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 8949**

Sales and Other Dispositions of Capital Assets

File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

**Part I Short-Term**

Transactions involving capital assets you held 1 year or less are short term. 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.

1. **(A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
2. **(B)** Short-term transactions reported on Form(s) 1099-B showing basis wasn’t reported to the IRS
3. **(C)** Short-term transactions not reported to you on Form 1099-B

**Tabular Format**

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

**Column (g)** in the separate instructions for how to figure the amount of the adjustment.

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

Cat. No. 37768Z Form 8949 (2016)
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 recommended 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 Schwab Equity Award Center account under the **History & Statements** tab and in the Total Equity Award Statement sent by Schwab at the end of each year.

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

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

![Example Substitute 1099-B form]

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

Note: Schwab will NOT report the cost basis information for noncovered securities to the IRS. Schwab reports 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® retail 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

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.
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 Unrealized Gain/Loss 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.

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 retail brokerage account.

You can view realized gain/loss 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.

For general information about stock plan awards, including a glossary of common terms, log in to the Schwab Equity Award Center at eac.schwab.com and select the Education & Modeling tab. From there, click on Tax Center to access myStockOptions.com, a third-party educational resource made available to you by Schwab.

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