



## EMPLOYEE STOCK PURCHASE PLAN (ESPP) TAX OVERVIEW \*

No taxation occurs when you acquire ESPP shares. Taxation of ESPP shares occurs only when you dispose of them. A disposition of shares occurs when you sell, contribute, gift or otherwise cease to own your shares.

A disposition of shares within two years of the grant date is a ***Disqualifying Disposition***. A disposition after two years from the grant date is a ***Qualifying Disposition*** and results in more favorable tax treatment. The grant date typically is the first day of the applicable fiscal quarter. The exercise or purchase date typically is the last day of the applicable quarter.

- If you sell your shares, you have compensation income and capital gain or loss.
- If you contribute your shares, you have compensation income and a contribution deduction (if you itemize).
- If you gift your shares, you have compensation income, and the person receiving the shares gets basis for the amount you paid for them, plus the amount of compensation you recognize upon the gifting of the shares.

The amount of your compensation income, basis, capital gain or loss, or contribution deduction depends upon whether you have a Qualifying or Disqualifying Disposition.

### **DISQUALIFYING DISPOSITION** **(Within 2 Years of Grant Date)**

#### **Compensation Income**

Whether you sell, contribute, gift or otherwise dispose of your shares, you have compensation income. For disqualifying dispositions, the compensation income is the discount you received upon purchasing the shares – 15 percent of the fair market value (FMV) of the shares on the exercise/purchase date.

#### **Capital Gain or Loss**

If you sell the shares, your capital gain or loss is the difference between the amount you receive for the shares and the basis of the shares sold. The basis of the shares is the amount you paid for them, plus the compensation income you recognize upon their disposition. Simply stated, in the case of disqualifying dispositions, your basis in the shares is their FMV on the date you acquired them.

#### **Contribution Deduction**

If you contribute your shares, your tax deduction is the FMV of the shares on the date of contribution, less any short-term gain you would have recognized had you sold the shares.

**QUALIFYING DISPOSITION**  
**(After 2 Years from Grant Date)**

**Compensation Income**

Whether you sell, contribute or otherwise dispose of your shares, you have compensation income. For qualifying dispositions, the compensation income is the lesser of

- (1) The FMV on the disposition date minus the amount you paid for the shares, or
- (2) The discount you would have received had you purchased the shares on the beginning-of-the-quarter grant date. This is 15 percent of the fair market value (FMV) of the shares on grant date.

**Capital Gain or Loss**

If you sell the shares, your capital gain or loss is the difference between the amount you receive for the shares and the basis of the shares sold. For qualifying dispositions, the basis of the shares is the amount you paid for them, plus the compensation income you recognize upon their disposition.

**Contribution Deduction**

If you contribute your shares in a qualifying disposition, your tax deduction is the FMV of the shares on the date of contribution.

**TAX REPORTING**

Each year our ESPP administrator provides Form 3922 showing information necessary to compute eventual compensation and basis amounts for shares you acquire during the calendar year. The administrator's website contains the same information. Form 3922 provides the following information:

- |   |   |
|---|---|
| 1. Grant date                                 | 5. Exercise (purchase) price              |
| 2. Exercise date (usually the same as item 7) | 6. Number of shares acquired              |
| 3. FMV on grant date                          | 7. Date title transferred (purchase date) |
| 4. FMV on exercise date                       | 8. Exercise price using grant date FMV    |

To the extent the information is available to the Corporate Tax or Payroll department, your annual Form W-2 will include compensation applicable to dispositions of ESPP stock during the calendar year. You should check your Form W-2 for any compensation related to disposition of your ESPP shares. You can verify the ESPP-related compensation on your Form W-2 using the information shown on Form 3922.

If the compensation amounts are complete and correct on your Form W-2, then all that remains is to compute capital gain/loss and/or contribution deduction amounts on your income tax return. If the amounts on your W-2 are not complete or correct, you should make the appropriate adjustments on your tax return to report the correct amount of compensation.

*\* Please note that this overview is not intended as tax advice. Franklin Covey Co. cannot answer questions regarding how you calculate or pay your individual taxes. For advice applicable to your situation, you should consult with your tax advisor.*