

Section 6039: Last Minute Updates and Guidance on Communicating with Participants

NASPP - San Francisco Chapter
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Agenda

- Brief Overview
- How Symantec is Approaching This
- Specifics of New Forms 3921 and 3922
- Participant Communications
- Tax Reporting Examples



Background

- Amended Section 6039 Requires:
 - Reporting to participants of ISO exercises and (for most) ESPP purchases
 - Filing of official tax forms (3921 for ISOs, 3922 for ESPPs) with IRS
 - Serious penalties for non-filing, late filing or incorrect filing
 - Covers all participants except nonresident aliens for whom no W-2 required during grant to exercise/purchase



Background

- Amended Section 6039 Requires:
 - Electronic filing required if more than 250 forms
 - Substitute or composite forms permitted for statements to participants, so long as prescribed format/rules followed

Symantec's Approach



Symantec's Approach to 6039 Planning

- Rules and Requirements
 - Read and understand what the filing and reporting requirements are and how your company is impacted.
 - Attend presentations provided by experts in the Equity arena.
 - Talk with outside counsel or other Equity consultants
 - Talk with peer companies
 - Consider special circumstances such as mobile employees and M&A



Symantec's Approach to 6039 Planning

- Administration
 - Decide on which departments will be involved in the planning and reporting process
 - Set expectations for Management and understand any budget and/or timing constraints
 - Assess if the process will remain in-house or if you will outsource
 - Consider drafting a timeline or calendar
 - 12/31 ESPP
 - High risk for corrections?
 - Other January – March department activities?



Symantec's Approach to 6039 Planning

- Reporting
 - ISOs and ESPP?
 - Prepared Forms or Substitute Forms
 - Electronic or Paper
 - IRS
 - Employees
 - Transfer Code
 - Unique Identifier Number
 - Test the File Transmission First



Symantec's Approach to 6039 Planning

- Communication
 - Email employees prior to mailing?
 - Terminated employees
 - Mobile employees
 - Include communication with the mailing?
 - What is included in each box
 - Why you are sending the form(s)
 - When they will need the forms
 - Post information on your company's stock website
 - Year-end Tax Summaries or other additional information statements
 - Minimize questions at tax time
 - Email employees address update reminder at year-end

Forms 3921 & 3922

IRS Forms 3921 and 3922

- IRS issued final forms in November 2010

Form 3921

2525

VOID CORRECTED

TRANSFEROR'S name, street address, city, state, and ZIP code		1 Date option granted	OMB No. 1545-2129	Form 3921 (Rev. October 2010)	Exercise of an Incentive Stock Option Under Section 422(b)
		2 Date option exercised			
TRANSFEROR'S federal identification number	EMPLOYEE'S identification number	3 Exercise price per share	4 Fair market value per share on exercise date	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.	
EMPLOYEE'S name		\$	\$		
Street address (including apt. no.)		5 No. of shares transferred			
City, state, and ZIP code		6 If other than TRANSFEROR, name, address, and EIN of corporation whose stock is being transferred			
Account number (see instructions)					

Form 3921 (Rev. October 2010)

Cat. No. 411790

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Instructions for Employee

You have received this form because your employer (or transfer agent) transferred your employer's stock to you pursuant to your exercise of an incentive stock option (ISO). You must recognize (report) gain or loss on your tax return for the year in which you sell or otherwise dispose of the stock. Keep this form and use it to figure the gain or loss. For more information, see Pub. 525, Taxable and Nontaxable Income.

When you exercise an ISO, you may have to include in alternative minimum taxable income a portion of the fair market value of the stock acquired through the exercise of the option. For more information, see Form 6251, Alternative Minimum Tax—Individuals, and its instructions.

Account number. May show an account or other unique number your employer or transfer agent assigned to distinguish your account.

Box 1. Shows the date the option to purchase the stock was granted to you.

Box 2. Shows the date you exercised the option to purchase the stock.

Box 3. Shows the exercise price per share of stock.

Box 4. Shows the fair market value (FMV) of a share of stock on the date the option was exercised.

Box 5. Shows the number of shares of stock transferred to you pursuant to the exercise of the option.

Box 6. Shows the name, address, and employer identification number (EIN) of the corporation whose stock is being transferred (if other than the corporation shown in TRANSFEROR boxes in the upper left corner of the form).

Form 3922

2626

VOID

CORRECTED

CORPORATION'S name, street address, city, state, and ZIP code		1 Date option granted	OMB No. 1545-2129	Form 3922 (Rev. October 2010)	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)	
		2 Date option exercised				
CORPORATION'S federal identification number	EMPLOYEE'S identification number	3 Fair market value per share on grant date	4 Fair market value per share on exercise date			Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		\$	\$			
Street address (including apt. no.)		5 Exercise price paid per share	6 No. of shares transferred			
City, state, and ZIP code		\$				
Account number (see instructions)		7 Date legal title transferred				
		8 Exercise price per share determined as if the option was exercised on the date shown in box 1.				
		\$				

Form 3922 (Rev. October 2010)

Cat. No. 41180P

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Instructions for Employee

You have received this form because (1) your employer (or its transfer agent) has recorded a first transfer of legal title of stock you acquired pursuant to your exercise of an option granted under an employee stock purchase plan and (2) the exercise price was less than 100 percent of the value of the stock on the date shown in box 1 or was not fixed or determinable on that date.

No income is recognized when you exercise an option under an employee stock purchase plan. **However**, you must recognize (report) gain or loss on your tax return for the year in which you sell or otherwise dispose of the stock. Keep this form and use it to figure the gain or loss. For more information, see Pub. 525, Taxable and Nontaxable Income.

Account number. May show an account or other unique number your employer or transfer agent assigned to distinguish your account.

Box 1. Shows the date the option to purchase the stock was granted to you.

Box 2. Shows the date you exercised the option to purchase the stock.

Box 3. Shows the fair market value (FMV) per share on the date the option to purchase the stock was granted to you.

Box 4. Shows the FMV per share on the date you exercised the option to purchase the stock.

Box 5. Shows the price paid per share on the date you exercised the option to purchase the stock.

Box 6. Shows the number of shares to which legal title was transferred by you.

Box 7. Shows the date legal title of the shares was first transferred by you.

Box 8. If the exercise price per share was not fixed or determinable on the date entered in box 1, box 8 shows the exercise price per share determined as if the option was exercised on the date in box 1. If the exercise price per share was fixed or determinable on the date shown in box 1, then box 8 will be blank.

IRS Terminology on Form 3922

IRS Terminology

Common Usage

“Date option granted”	Beginning of purchase period
“Date option exercised”	Date of ESPP purchase
“Grant date”	Beginning of purchase period
“Exercise price”	Purchase price
“Date legal title transferred”	Purchase date (for most)
“Exercise price determined as if option exercised on grant date”	85%* of FMV on beginning date of purchase period

* Or other percentage if plan does not give 15% discount.

Participant Communications

- Due to complexity of tax rules and likely confusion, companies should add communication piece to accompany Forms 3921 and 3922
- Key points (see separate handout)

Assumptions for Examples of Tax/Tax Reporting for ESPPs

- ESPP has two six month purchase periods (April 1 - September 30 and October 1 - March 31) with a discount of 15% off lower of FMV at beginning or end of period
- For most examples, assume FMV at beginning of period is \$30 and FMV at end of period (purchase date) is \$32. So purchase price is \$25.50 (85% of \$30)
- Assume purchase/sale of 100 shares
- Company reports ordinary income from disqualifying dispositions on employee's Form W-2
- Despite probable requirement to report ordinary income on Form W-2 for qualifying dispositions, company does not
- Brokerage commission on sale and transaction fee = \$25

Example 1 - Scenario

- Employee purchases on 9/30/10 and sells on 1/31/11 in a disqualifying disposition (two years or less from beginning of applicable purchase period) for \$34 per share
- Ordinary income (difference between FMV at purchase and purchase price) =
$$(\$32 - \$25.50) \times 100 = \$650$$
- Capital gain (short term) (since 9/30/10 - 1/31/11 is not greater than 12 months) =
$$(100 \times \$34) - \$2,550 \text{ (purchase price)} - \$650 \text{ (ordinary income)} - \$25 \text{ (commission and transaction fee)} = \$175$$
- Long term or short term capital gain depending on whether sale > 12 months from purchase

Example 1 - Tax Reporting

- Form W-2 in year of sale (2011) includes \$650 as part of total wages in Box 1 (but not separately identified)

Reporting for ESPPs

Example 1 - Form 1099B

7979 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange 1/31/11	OMB No. 1545-0715 2011	Proceeds From Broker and Barter Exchange Transactions
		1b CUSIP no.	Form 1099-B	
PAYER'S federal identification number RECIPIENT'S identification number		2 Stocks, bonds, etc. \$ 3,375	Reported to IRS } <input type="checkbox"/> Gross proceeds } <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums*	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
3 Bartering		\$	4 Federal income tax withheld \$ 0	
RECIPIENT'S name		5 No. of shares exchanged	6 Classes of stock exchanged	
Street address (including apt. no.)		7 Description		
City, state, and ZIP code		8 Profit or (loss) realized in 2010 \$	9 Unrealized profit or (loss) on open contracts—12/31/2009 \$	
CORPORATION'S name		10 Unrealized profit or (loss) on open contracts—12/31/2010 \$	11 Aggregate profit or (loss) \$	
Account number (see instructions)	2nd TIN not. <input type="checkbox"/>	12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 <input type="checkbox"/>		

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* Most brokers report net of commissions, but some report gross proceeds.

Reporting for ESPPs

Example 1 - Form 3922

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CORPORATION'S name, street address, city, state, and ZIP code		1 Date option granted	OMB No. 1545-2129	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c) Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
		4/1/10	Form 3922 (Rev. October 2010)	
CORPORATION'S federal identification number EMPLOYEE'S identification number		2 Date option exercised		
		9/30/10		
EMPLOYEE'S name		3 Fair market value per share on grant date	4 Fair market value per share on exercise date	
		\$ 30.00	\$ 32.00	
Street address (including apt. no.)		5 Exercise price paid per share	6 No. of shares transferred	
		\$ 25.50	100	
City, state, and ZIP code		7 Date legal title transferred		
		9/30/10		
Account number (see instructions)		8 Exercise price per share determined as if the option was exercised on the date shown in box 1.		
		\$ 25.50		

Form 3922 (Rev. October 2010)

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Reporting for ESPPs

Example 1 - Schedule D (Form 1040)

SCHEDULE D (Form 1040)		Capital Gains and Losses				OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.				2011 Attachment Sequence No. 12	
Name(s) shown on return						Your social security number	
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)		
1	9/30/10	1/31/11	3375 00	3200 00	175	00	
	↑	↑	↑	↑			
	Box 2 - Form 3922		Box 2 - Form 1099B				
		Box 1a - Form 1099B					
							From Form 3922 Box 5 x Box 6 plus (Box 4 - Box 5) x Box 6
2 Enter your short-term totals, if any, from Schedule D-1, line 2							

Example 2 - Scenario

- Same as Example 1 but sale on 10/31/12 at \$34
- So, a qualifying disposition (4/1/10 - 10/31/12 > 24 months)
 - Ordinary income =
 $(\$30 - \$25.50) \times 100 = \$450$
 - Capital gain (long-term) =
 $\$3,400 - \$2,550 - \$450 - \$25 = \$375$

Example 2 - Tax Reporting

- Form W-2
 - Nothing reflected on 2012 W-2 (some companies do track and report on Form W-2)

Reporting for ESPPs

Example 2 - Form 3922

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CORPORATION'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/10	OMB No. 1545-2129 Form 3922 (Rev. October 2010)	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)
		2 Date option exercised 9/30/10		
CORPORATION'S federal identification number	EMPLOYEE'S identification number	3 Fair market value per share on grant date \$ 30.00	4 Fair market value per share on exercise date \$ 32.00	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		5 Exercise price paid per share \$ 25.50	6 No. of shares transferred 100	
Street address (including apt. no.)		7 Date legal title transferred 9/30/10		
City, state, and ZIP code		8 Exercise price per share determined as if the option was exercised on the date shown in box 1. \$ 25.50		
Account number (see instructions)				

Form **3922** (Rev. October 2010)

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Reporting for ESPPs

Example 2 - Schedule D (Form 1040)

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

2012

Attachment
Sequence No. **12**

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8	9/30/10	10/31/12	3375 00	3000 00	375 00

From Form 3922

Box 5 x Box 6
plus
(Box 3 - Box 5) x Box 6

Example 3 - Scenario

- Same as Example 1 except sale at \$29.00 on 1/31/11
- So, a disqualifying disposition (4/1/10 - 1/31/11 not greater than 24 months)
 - Ordinary income (same as Example 1) =
 $(\$3,200 - \$2,550) = \$650$
 - Capital loss (short-term) =
 $(\$2,900 - \$2,550 - \$650 - \$25) = (\$325)$

Example 3 - Tax Reporting

- Form W-2
 - \$650 ordinary income added to Box 1
- Form 3922
 - No change
- Form 1099B

Reporting for ESPPs

Example 3 - Form 3922

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CORPORATION'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/10	OMB No. 1545-2129 Form 3922 (Rev. October 2010)	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)
		2 Date option exercised 9/30/10		
CORPORATION'S federal identification number	EMPLOYEE'S identification number	3 Fair market value per share on grant date \$ 30.00	4 Fair market value per share on exercise date \$ 32.00	
EMPLOYEE'S name		5 Exercise price paid per share \$ 25.50	6 No. of shares transferred 100	
Street address (including apt. no.)		7 Date legal title transferred 9/30/10		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
City, state, and ZIP code		8 Exercise price per share determined as if the option was exercised on the date shown in box 1. \$ 25.50		
Account number (see instructions)				

Form 3922 (Rev. October 2010)

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Reporting for ESPPs

Example 3 - Schedule D (Form 1040)

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99)	Capital Gains and Losses ▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2011</div> Attachment Sequence No. 12			
Name(s) shown on return		Your social security number			
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less					
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1	9/30/10	1/31/11	2875 00	3200 00	(325 00)
2 Enter your short-term totals, if any, from Schedule D-1,					

From Form 3922
Box 5 x Box 6
plus
(Box 4 - Box 5) x 100

Example 4 - Scenario

- Same as Example 3 except sale on 10/31/12
- So, a qualifying disposition (4/1/10 - 10/31/12 > 24 months)
- Ordinary income = lesser of
 $(\$30 - \$25.50) \times 100 = \$450$
or
actual gain $\$2,900 - \$2,550 = \$350$
- So, ordinary income = \$350 (no capital gain or loss)

Example 4 - Tax Reporting

- Form W-2
 - Nothing reported
- Form 3922
 - Same as Example 3

Reporting for ESPPs

Example 4 - Form 1099B

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PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange 10/31/12	OMB No. 1545-0715 2012	Proceeds From Broker and Barter Exchange Transactions	
		1b CUSIP no.	Form 1099-B		
PAYER'S federal identification number RECIPIENT'S identification number		2 Stocks, bonds, etc. Reported to IRS } <input type="checkbox"/> Gross proceeds \$ 2,875 } <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.		
3 Bartering		4 Federal income tax withheld \$ 0			
RECIPIENT'S name		5 No. of shares exchanged			6 Classes of stock exchanged
Street address (including apt. no.)		7 Description			
City, state, and ZIP code		8 Profit or (loss) realized in 2010 \$	9 Unrealized profit or (loss) on open contracts—12/31/2009 \$		
CORPORATION'S name		10 Unrealized profit or (loss) on open contracts—12/31/2010 \$	11 Aggregate profit or (loss) \$		
Account number (see instructions)	2nd TIN not. <input type="checkbox"/>	12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 <input type="checkbox"/>			

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Reporting for ESPPs

Example 4 - Form 3922

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CORPORATION'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/10	OMB No. 1545-2129 Form 3922 (Rev. October 2010)	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)
		2 Date option exercised 9/30/10		
CORPORATION'S federal identification number	EMPLOYEE'S identification number	3 Fair market value per share on grant date \$ 30.00	4 Fair market value per share on exercise date \$ 32.00	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		5 Exercise price paid per share \$ 25.50	6 No. of shares transferred 100	
Street address (including apt. no.)		7 Date legal title transferred 9/30/10		
City, state, and ZIP code		8 Exercise price per share determined as if the option was exercised on the date shown in box 1. \$ 25.50		
Account number (see instructions)				

Form **3922** (Rev. October 2010)

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Reporting for ESPPs

Example 4 - Schedule D (Form 1040)

SCHEDULE D (Form 1040)

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

2012
Attachment
Sequence No. **12**

Your social security number

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8	9/30/10	10/31/12	2875 00	2900 00	(25 00)
9	Enter your long-term totals, if any, from Schedule D-1, line 9				
10	Total long-term sales price amounts. Add lines 8 and 9 in column (d)				
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				

From Form 3922
Box 8 x Box 6
plus
lesser of
(Box 3 - Box 5) x Box 6
or
\$2,900 - (Box 5 x Box 6)

ESPPs with No Lookback - Reporting

- Reporting similar even if no lookback price if purchase price based on discount off date of purchase FMV
- So, in above examples, if ESPP provided for purchase discount off date of purchase FMV, purchase price would have been 85% of \$32, or \$27.20
- Form 3922 would be completed as follows:

Reporting for ESPPs

ESPPs with No Lookback - Form 3922

2626 VOID CORRECTED

CORPORATION'S name, street address, city, state, and ZIP code		1 Date option granted	OMB No. 1545-2129	Form 3922 (Rev. October 2010)	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)
		4/1/10	2 Date option exercised		
CORPORATION'S federal identification number	EMPLOYEE'S identification number	3 Fair market value per share on grant date	4 Fair market value per share on exercise date		
EMPLOYEE'S name		\$ 30.00	\$ 32.00		
Street address (including apt. no.)		5 Exercise price paid per share	6 No. of shares transferred	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.	
City, state, and ZIP code		\$ 27.20	7 Date legal title transferred		
Account number (see instructions)		9/30/10	8 Exercise price per share determined as if the option was exercised on the date shown in box 1.		
		\$ 25.50			

Form 3922 (Rev. October 2010)

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Conclusions

- ESPP taxation is complicated, and somewhat illogical and confusing
- Tax reporting by employees is a challenge
- Form 3922 will cause confusion unless clear communication
- At a minimum, should indicate that Form 3922 does not by itself require anything to be reported (particularly in year of purchase). In year of sale, employee will need to utilize data on Form 3922 and Form 1099B, and be aware that (at least in a disqualifying disposition) the company will have reported income on the Form W-2, which will increase the employee's basis for reporting the capital gain or loss on sale on Schedule D of Form 1040

Assumptions for Examples of Tax/Tax Reporting for ISOs

- Exercise price = FMV at grant = \$30
 - Grant date of 4/1/06
 - 4 year vesting
 - Exercise/later sale of 100 shares
 - Company reports ordinary income from disqualifying dispositions on employee's Form W-2
 - Brokerage commission on sale = \$25

Example 1 - Scenario

- Employee exercises on 4/1/10
 - Does cashless exercise/same day sale for 100 shares
 - Sales price = \$35/share

Example 1 - Tax Reporting

- Disqualifying disposition
- Form W-2 in year of sale (2010) includes \$500 of ordinary income as part of total wages in Box 1 (but not separately identified)
- Capital gain (loss):
 - \$3,500 (gross sales proceeds)
 - less \$25 commission
 - less \$3,000 exercise price
 - less \$500 ordinary income on Form W-2
- Net \$25 short-term capital loss

Reporting for ISOs

Example 1 - 1099B

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PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange 4/1/10	OMB No. 1545-0715 2010	Proceeds From Broker and Barter Exchange Transactions
		1b CUSIP no.	Form 1099-B	
PAYER'S federal identification number		2 Stocks, bonds, etc. \$ 3,475	Reported to IRS } <input type="checkbox"/> Gross proceeds <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums*	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
RECIPIENT'S identification number		3 Bartering \$	4 Federal income tax withheld \$ 0	
RECIPIENT'S name		5 No. of shares exchanged 100	6 Classes of stock exchanged	
Street address (including apt. no.)		7 Description		
City, state, and ZIP code		8 Profit or (loss) realized in 2010 \$	9 Unrealized profit or (loss) on open contracts—12/31/2009 \$	
CORPORATION'S name		10 Unrealized profit or (loss) on open contracts—12/31/2010 \$	11 Aggregate profit or (loss) \$	
Account number (see instructions)	2nd TIN not. <input type="checkbox"/>	12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 <input type="checkbox"/>		

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* Most brokers report net of commissions, but some report gross proceeds.

Reporting for ISOs

Example 1 - Form 3921

2525 VOID CORRECTED

TRANSFEROR'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/06	OMB No. 1545-2129 Form 3921 (Rev. October 2010)	Exercise of an Incentive Stock Option Under Section 422(b)
		2 Date option exercised 4/1/10		
TRANSFEROR'S federal identification number	EMPLOYEE'S identification number	3 Exercise price per share \$ 30.00	4 Fair market value per share on exercise date \$ 35.00	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		5 No. of shares transferred 100		
Street address (including apt. no.)		6 If other than TRANSFEROR, name, address, and EIN of corporation whose stock is being transferred		
City, state, and ZIP code				
Account number (see instructions)				

Form **3921** (Rev. October 2010)

Cat. No. 411790

Department of the Treasury - Internal Revenue Service

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Reporting for ISOs

Example 1 - Schedule D (Form 1040)

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99)	Capital Gains and Losses ▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2010</div> Attachment Sequence No. 12
Name(s) shown on return		Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1 100 shares XYZ co.	4/1/10	4/1/10	3475 00	3500 00	(25 00)
	<div style="border: 1px solid red; padding: 2px; display: inline-block;">Box 2 - Form 3921</div>				
		<div style="border: 1px solid red; padding: 2px; display: inline-block;">Box 1a - Form 1099B</div>			
			<div style="border: 1px solid red; padding: 2px; display: inline-block;">Box 2 - Form 1099B</div>		
				<div style="border: 1px solid red; padding: 2px; display: inline-block;">From Form 3921 Box 4 x Box 5</div>	
2 Enter your short-term totals, if any, from Schedule D-1.					

Example 2 - Scenario

- Employee exercises on 4/1/10
- FMV on 4/1/10 = \$35
- Employee sells on 4/2/11 for \$40/share
- Qualifying disposition

Example 2 - Tax Reporting

- No ordinary income on qualifying disposition of ISO
- Capital gain
 - \$4,000 (gross sales proceeds)
 - less \$25 commission
 - less \$3,000 exercise price
 - Capital gain (long-term) = \$975

Reporting for ISOs

Example 2 - Form 1099B

7979 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange 4/2/11	OMB No. 1545-0715 2011	Proceeds From Broker and Barter Exchange Transactions
		1b CUSIP no.	Form 1099-B	
2 Stocks, bonds, etc. \$ 3,975		Reported to IRS } <input type="checkbox"/> Gross proceeds } <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums		
PAYER'S federal identification number	RECIPIENT'S identification number	3 Bartering \$	4 Federal income tax withheld \$	
RECIPIENT'S name		5 No. of shares exchanged 100	6 Classes of stock exchanged	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
Street address (including apt. no.)		7 Description		
City, state, and ZIP code		8 Profit or (loss) realized in 2010 \$	9 Unrealized profit or (loss) on open contracts—12/31/2009 \$	
CORPORATION'S name		10 Unrealized profit or (loss) on open contracts—12/31/2010 \$	11 Aggregate profit or (loss) \$	
Account number (see instructions)	2nd TIN not. <input type="checkbox"/>	12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 <input type="checkbox"/>		
Form 1099-B		Cat. No. 14411V		

Department of the Treasury - Internal Revenue Service

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Reporting for ISOs

Example 2 - Form 3921

2525 VOID CORRECTED

TRANSFEROR'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/06	OMB No. 1545-2129 Form 3921 (Rev. October 2010)	Exercise of an Incentive Stock Option Under Section 422(b)
		2 Date option exercised 4/1/10		
TRANSFEROR'S federal identification number	EMPLOYEE'S identification number	3 Exercise price per share \$ 30.00	4 Fair market value per share on exercise date \$ 35.00	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		5 No. of shares transferred 100		
Street address (including apt. no.)		6 If other than TRANSFEROR, name, address, and EIN of corporation whose stock is being transferred		
City, state, and ZIP code				
Account number (see instructions)				

Form **3921** (Rev. October 2010)

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Department of the Treasury - Internal Revenue Service

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Reporting for ISOs

Example 2 - Schedule D (Form 1040)

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99)	Capital Gains and Losses ▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2011</div> Attachment Sequence No. 12
Name(s) shown on return		Your social security number

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8 100 shares XYZ co.	4/1/10	4/2/11	3975 00	3000 00	975 00
	↑ Box 2 - Form 3921	↑ Box 1a - Form 1099B	↑ Box 2 - Form 1099B	↑ From Form 3921 Box 3 x Box 5	
9 Enter your long-term totals, if any, from Schedule D-1					

Example 3 - Scenario

- Employee exercises on 4/1/10
- FMV on 4/1/10 = \$35
- Employee sells on 3/1/11 for \$37 share (disqualifying disposition)

Example 3 - Tax Reporting

- Disqualifying disposition
- Ordinary income = \$500 $((\$25 - \$30) \times 100)$
- Capital gain (short-term)
 - \$3,700 – gross sales proceeds
 - less \$25 commission
 - less \$3,000 exercise price
 - less \$500 ordinary income on Form W-2
 - Net STCG = \$175

Reporting for ISOs

Example 3 - Form 1099B

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PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange 3/1/11	OMB No. 1545-0715 2011	Proceeds From Broker and Barter Exchange Transactions
		1b CUSIP no.	Form 1099-B	
2 Stocks, bonds, etc. \$ 3,675		Reported to IRS } <input type="checkbox"/> Gross proceeds } <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums		
PAYER'S federal identification number	RECIPIENT'S identification number	3 Bartering \$	4 Federal income tax withheld \$	
RECIPIENT'S name		5 No. of shares exchanged 100	6 Classes of stock exchanged	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
Street address (including apt. no.)		7 Description		
City, state, and ZIP code		8 Profit or (loss) realized in 2010 \$	9 Unrealized profit or (loss) on open contracts—12/31/2009 \$	
CORPORATION'S name		10 Unrealized profit or (loss) on open contracts—12/31/2010 \$	11 Aggregate profit or (loss) \$	
Account number (see instructions)	2nd TIN not.	12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 <input type="checkbox"/>		
(Empty space for account number)		(Empty space for 2nd TIN not.)		
(Empty space for account number)		(Empty space for 2nd TIN not.)		

Reporting for ISOs

Example 3 - Form 3921

2525 VOID CORRECTED

TRANSFEROR'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/06	OMB No. 1545-2129 Form 3921 (Rev. October 2010)	Exercise of an Incentive Stock Option Under Section 422(b)
		2 Date option exercised 4/1/10		
TRANSFEROR'S federal identification number	EMPLOYEE'S identification number	3 Exercise price per share \$ 30.00	4 Fair market value per share on exercise date \$ 35.00	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		5 No. of shares transferred 100		
Street address (including apt. no.)		6 If other than TRANSFEROR, name, address, and EIN of corporation whose stock is being transferred		
City, state, and ZIP code				
Account number (see instructions)				

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Example 3 - Schedule D (Form 1040)

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99) Name(s) shown on return	Capital Gains and Losses ▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2011</div> Attachment Sequence No. 12
Name(s) shown on return		Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1 100 shares XYZ Co.	4/1/10	3/1/11	3675 00	3500 00	175 00
	↑	↑	↑	↑	
	Box 2 - Form 3921			From Form 3921 Box 4 x Box 5	
	Box 1a - Form 1099B				
			Box 2 - Form 1099B		
2 Enter your short-term totals, if any, from Schedule D-1, line 2			2		

Example 4 - Scenario

- Employee exercises on 4/1/10
- FMV on 4/1/10 = \$35
- Employee sells on 3/1/11 for \$33/share

Example 4 - Tax Reporting

- Disqualifying disposition
- Ordinary income = \$275
 - Limited to actual gain on sale
 - \$3,300
 - less \$25 commission
 - less \$3,000 exercise price
 - Net gain = \$275
- No capital gain or loss

Reporting for ISOs

Example 4 - Form 1099B

7979 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange 3/1/11	OMB No. 1545-0715 2011	Proceeds From Broker and Barter Exchange Transactions
		1b CUSIP no.		
2 Stocks, bonds, etc. \$ 3,275		Reported to IRS } <input type="checkbox"/> Gross proceeds <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums	Form 1099-B	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Bartering \$	4 Federal income tax withheld \$	
RECIPIENT'S name		5 No. of shares exchanged 100	6 Classes of stock exchanged	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
Street address (including apt. no.)		7 Description		
City, state, and ZIP code		8 Profit or (loss) realized in 2010 \$	9 Unrealized profit or (loss) on open contracts—12/31/2009 \$	
CORPORATION'S name		10 Unrealized profit or (loss) on open contracts—12/31/2010 \$	11 Aggregate profit or (loss) \$	
Account number (see instructions)	2nd TIN not. <input type="checkbox"/>	12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 <input type="checkbox"/>		

Reporting for ISOs

Example 4 - Form 3921

2525 VOID CORRECTED

TRANSFEROR'S name, street address, city, state, and ZIP code		1 Date option granted 4/1/06	OMB No. 1545-2129 Form 3921 (Rev. October 2010)	Exercise of an Incentive Stock Option Under Section 422(b)
		2 Date option exercised 4/1/10		
TRANSFEROR'S federal identification number	EMPLOYEE'S identification number	3 Exercise price per share \$ 30.00	4 Fair market value per share on exercise date \$ 35.00	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the most current version of the General Instructions for Certain Information Returns.
EMPLOYEE'S name		5 No. of shares transferred 100		
Street address (including apt. no.)		6 If other than TRANSFEROR, name, address, and EIN of corporation whose stock is being transferred		
City, state, and ZIP code				
Account number (see instructions)				

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Reporting for ISOs

Example 4 - Schedule D (Form 1040)

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99)	Capital Gains and Losses ▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2011</div> Attachment Sequence No. 12
Name(s) shown on return		Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1 100 shares XYZ Co.	4/1/10	3/1/11	3275 00	3275 00	0 00
	↑	↑	↑	↑	
	Box 2 - Form 3921				
	Box 1a - Form 1099B				
				Box 2 - Form 1099B	
				Box 2 - Form 1099B	
2 Enter your short-term totals, if any, from Schedule D-1, line 2			2		

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Questions?