

Stock Plan Services

Employee stock purchase plans (ESPP): qualifying and disqualifying dispositions

The shares you purchase through a Qualified ESPP can be eligible for preferential tax treatment. Your shares can “qualify” for this special tax treatment or be “disqualified” depending on when you sell and if certain holding periods have been met. This special treatment will determine whether the income from your sale is taxed at ordinary income rates or at the more favorable capital gains rates.

What is a qualifying or a disqualifying disposition?

The word “disposition” is just another way of saying that you have sold, gifted, or transferred ownership of your shares.

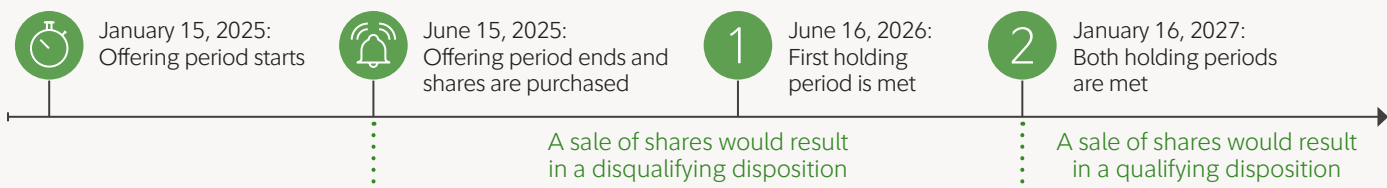
- **Qualifying dispositions** occur when shares **are held** for the required holding periods—which means they’ll receive a more preferential tax treatment.
- **Disqualifying dispositions** occur when shares **are not held** for the required holding periods—which means they won’t receive preferential tax treatment.

What are the holding periods?

To receive preferential tax treatment, shares must meet both of these two holding periods when they’re sold:

1. More than one year from the purchase date
2. More than two years from the offering date (the date the offering period begins)

This example shows when a disqualifying and qualifying disposition would occur in an ESPP with a six-month offering period.



What is the difference in tax treatment and why is it important?

When you sell your stock, the sale triggers ordinary income. Although no withholding applies, a qualifying or disqualifying disposition will determine the tax amount you owe on this income.

This example shows the ordinary income calculation for both qualifying and disqualifying dispositions for an ESPP with a 15% discount, when the stock price has increased since the start of the offering period. The “spread” is the difference between the purchase price and the market value on the purchase date. The plan does not have a lookback for the purchase price calculation.

> Fair market value at the start of the offering period.....	\$28.00 per share
> Fair market value at purchase.....	\$30.00 per share
> Price you pay with a 15% discount (no lookback)	\$25.50 per share
> Spread on purchase date.....	\$4.50



Total shares:
20 shares



With a **qualifying disposition**, you have held your shares for the required holding periods. When you sell, your ordinary income is calculated using the price at the start of the offering period. Capital gains rates, which are generally more favorable than ordinary income rates, apply to the remainder of your sale proceeds.

> Total shares purchased	20
> Ordinary income per share (\$28 x 15% discount)	\$4.20

Ordinary income for taxes (20 x \$4.20)... \$84.00



In the event of a **disqualifying disposition**, you have sold your shares before the end of the holding periods and all of your income (the spread on the purchase date) will be taxed at ordinary income rates.

> Total shares purchased	20
> Ordinary income per share (\$30 – \$25.50)	\$4.50

Ordinary income for taxes (20 x \$4.50)... \$90.00

You may still owe additional taxes on any gains that have occurred since you purchased your shares. These are called capital gain or loss taxes. To learn more about how this is calculated for Qualified ESPP plans, please see the [Qualified ESPP Guide](#).

Investing involves risk, including risk of loss.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

Portions of the content are provided under arrangement with myStockOptions.com, an independent source of online stock plan education and tools. Content may not be reproduced without express permission from myStockPlan.com, Inc., or Fidelity Investments.

Commissions and fees will apply to stock trades.

A link to third-party material is included for your convenience. The content owner is not affiliated with Fidelity and is solely responsible for the information and services it provides. Fidelity disclaims any liability arising from your use of such information or services.

Fidelity Stock Plan Services, LLC, provides recordkeeping and/or administrative services to your company's equity compensation plan, in addition to any services provided directly to the plan by your company or its service providers.

The Fidelity Investments and pyramid design logo is a registered service mark of FMR LLC.

Fidelity Stock Plan Services, LLC

© 2025 FMR LLC. All rights reserved.

951423.4.0 ESPP Guide-0925