

## Stock Plan Services

# Employee Stock Purchase Plan (ESPP) Contribution Limits



## How do you calculate the \$25,000 annual purchase limit and the maximum number of shares you can buy?

If your company offers a tax-qualified ESPP and you decide to participate, the IRS will only allow you to purchase a maximum of \$25,000 worth of stock in a calendar year. Any contributions that exceed this amount are refunded back to you by your company.

### How the \$25,000 value is calculated:

The IRS will look at the value of the stock on the first day of the offering period and will use that price for its math. So even if you purchase the stock for a different price, say at the end of the offering period or with a discount, the price at the beginning of the offering period will always be used for the \$25,000 limit.

### Example with a 15% discount:

- The stock price at the start of the offering is \$10.
- The stock price on the purchase date is \$12.
- The purchase price is \$8.50 (15% discount from the lower price with the look-back provision).
- The annual purchase limit in this example is 2,500 shares ( $\$25,000 / \$10$ ), even though you could purchase 2,941 shares with \$25,000 ( $\$25,000 / \$8.50$ ).

Remember, in this example your company would refund to you the amount that you contributed in excess of \$21,250 (2,500 shares at \$8.50 per share).

If the price were \$20 at the start of the offering period on January 1 and declined to \$10 on December 31, the purchase price would still be \$8.50. The annual purchase limit would be 1,250 shares ( $\$25,000 / \$20$ ), not 2,941 shares ( $\$25,000 / \$8.50$ ), since the value is based on the first day of the offering period.

Keep in mind that your company's ESPP contribution limit may differ from the \$25,000 IRS limit. The amount of money you can use may be capped to a percentage of salary (e.g., 10%) or a maximum number of shares that you are permitted to purchase.

Be sure to check your plan's rules.



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