Stock Plan Services

What's new this tax season?

There are some changes you should be aware of when preparing your tax return:

- After having been condensed to just 24 lines in 2018, the IRS Form 1040 tax return has expanded to 38 lines for 2020.
- New lines include those for the Recovery Rebate Credit (stimulus check) and for estimated tax payments, sometimes made by taxpayers who have stock compensation.
- Total capital gain or loss from Schedule D is entered on a different line of Form 1040.
- For ISO holders who triggered the alternative minimum tax (AMT), the Form 6251 total on Schedule 2 and the Form 8801 total on Schedule 3 are entered on different lines of Form 1040.
- For nonemployees such as consultants and directors, income is now reported on IRS Form 1099-NEC (no longer on Form 1099-MISC).
- The 2018 tax reforms continue to affect tax rates that apply to stock compensation and sales of company stock.

Below are details on changes in tax returns for the 2020 tax year.

Revised Form 1040

The tax treatment for stock compensation and the sale of company stock remains the same. However, where and how filers report this information on their tax returns has been changing over the past few years.

1. **Compensation.** Stock compensation is entered on line 1 of Form 1040, along with salary income reported on Form W-2.

2. **Capital gain or loss.** If you sold shares during the 2020 tax year, enter each sale on Form 8949 and report the total on Schedule D. Then report that Schedule D total on line 7 of Form 1040 (note that this has changed from line 6 on the 2019 form).

3. **Alternative minimum tax (AMT).** A concern for anyone with incentive stock options (ISOs), the AMT is no longer directly reported on Form 1040 from the AMT calculation made on Form 6251. Instead:

   - Enter your Form 6251 calculation on line 1 of Form 1040's Schedule 2 ("Tax"). Attach Form 6251 to Schedule 2. The totals from Part I of Schedule 2 go into line 17 on Form 1040 (note that this has changed from line 12b on the 2019 form).

   - The AMT credit that is generated for an ISO exercise that triggers the AMT is recouped through Form 8801, as it was in the past. The amount from line 25 of Form 8801 goes into line 6 (check box b) on Schedule 3 ("Nonrefundable Credits"). The totals from Part I of Schedule 3 go into line 20 of Form 1040 (note that this has changed from line 13b on the 2019 form).

4. **Recovery Rebate Credit.** To mitigate the economic impact of the pandemic, Congress provided two stimulus payments that were based on income from 2019 tax returns (or 2018 if your 2019 return was not available for the first payment). The amounts received for both the first payment and the second payment are phased out according to income in that prior year.

   Because of income spikes from stock compensation in recent years, you may not have qualified for this federal assistance, even if you were laid off or furloughed during 2020. Should this be your situation, you can instead claim the Recovery Rebate Credit on line 30 of Form 1040. In further good news, you have no recapture of the stimulus payments you received, should your 2020 income be higher than in the past, perhaps (again) from stock compensation. See the Form 1040 instructions for the Recovery Rebate Credit Worksheet. If you received IRS Notice 1444 ("Your Economic Impact Payment") for the first stimulus payment or IRS Notice 1444-B for the second, have these available when completing the worksheet to do the calculation.

5. **Estimated taxes.** The flat rate for federal supplemental withholding that applies to stock compensation may not cover the actual taxes you owe according to your marginal tax rate. You may then be paying estimated taxes in the year ahead because of income from restricted stock/RSU vesting, NQSO exercises, ISO exercises, or an ESPP purchase/sale. On the 2020 Form 1040, estimated tax payments are now reported on line 26. This differs from last year, when estimated tax payments were reported on Schedule 3 with the total funneled onto Form 1040.

New IRS Form 1099-NEC for nonemployees

For an employee, tax withholding occurs at NQSO exercise or restricted stock/RSU vesting, and the income appears on Form W-2. For a nonemployee, there is no withholding, and the income from exercise or vesting now appears on IRS Form 1099-NEC ("Nonemployee Compensation") as self-employment income. (Before 2020, it was Form 1099-MISC.)

Income is reported on Form 1099-NEC in boxes 1 and 7. You report this income on Schedule C of your Form 1040 tax return. As the income is self-employment income, you also need to calculate on Schedule SE any Social Security and Medicare taxes that you owe.

Rules for cost-basis reporting

For stock sales, there is no change in the IRS rules on how the cost-basis information is reported on Form 1099-B. For grants made in 2014 and later years, brokers are prohibited from including equity compensation income (which appears on Form W-2) in the cost basis reported on Form 1099-B. This creates confusion and complications with the reporting of stock sales from stock compensation on IRS Form 8949 and Schedule D.

For information on the tax-return reporting for sales of shares acquired through stock compensation, including annotated diagrams of Form 8949 and Schedule D, see the tax guides and supplemental-information forms provided by Fidelity.

Tax Cuts and Jobs Act (TCJA) continues to affect tax returns

The tax law contains some provisions that impact taxes related to equity compensation and stock sales that filers may be paying on their tax returns.

1. **Changes in the rates of individual income tax**. The TCJA kept seven income tax brackets, but reduced the rates and changed the income thresholds that apply. The rates are now 10%, 12%, 22%, 24%, 32%, 35%, and 37%. This means you have lower rates for compensation income, interest, ordinary dividends, and short-term capital gains.

WITHHOLDING

The flat supplemental wage rate for federal income tax withholding on stock compensation is based on the seven brackets. For amounts up to $1 million, it is linked to the third-lowest rate (22%). For amounts over $1 million, it is linked to the highest rate (37%).

As shown by the table below, the 22% rate of withholding may not cover the actual taxes you will owe on the additional taxable income from stock compensation in 2020. You must therefore know the tax bracket for your total income. Unless you paid estimated taxes during 2020 to cover any meaningful shortfall, you may owe an additional amount with your tax returns. Discuss this with a tax professional.

Rate	Taxable Income (Single)	Taxable Income (joint)
10%	$0 to $9,875	$0 to $19,750
12%	$9,876 to $40,125	$19,751 to $80,250
22%	$40,126 to $85,525	$80,251 to $171,050
24%	$85,526 to $163,300	$171,051 to $326,600
32%	$163,301 to $207,350	$326,601 to $414,700
35%	$207,351 to $518,400	$414,701 to $622,050
37%	$518,401 or more	$622,051 or more

2. Changes in the calculation of the alternative minimum tax (AMT). The income spread from an exercise of ISOs can trigger the AMT when the shares are held beyond the calendar year of exercise. While the AMT or how it applies to ISOs was not repealed, below are the current numbers in the AMT calculation (adjusted annually for inflation).

Filer Status in 2020	AMT Income Exemption Amount	Exemption Amount Phaseout Starts	Exemption Amount Phaseout Ends	Point Where Rate Rises from 26% to 28%
Single	$72,900	$518,400	$810,000	$197,900 (married filing separately: $98,950)
Joint	$113,400	$1,036,800	$1,490,400	$197,900

3. Changes in the income thresholds for long-term capital gains. While there is no change in the long-term capital gains rates, the TCJA created a new inflation-indexed income threshold above which the rate on long-term capital gains and qualified dividends goes from 15% to 20% (in 2020, $441,450 for single filers and $496,600 for joint filers). That threshold is no longer similar to that of the top tax bracket.

For more information, refer to Fidelity's stock plan guides or call **800.544.9354** to speak with an experienced Fidelity Stock Plan Services representative.

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