

Stock Plan Services

What to Know for the 2024 Tax Season



Here are some key points you should be aware of when preparing your tax return:

- Line 1 of Form 1040, where you report W-2 income, is broken out into Lines 1a through 1z. Stock compensation, along with salary income reported in Box 1 of Form W-2, is entered on Line 1a of Form 1040.
- If your company does not report stock compensation income on Form W-2 and does not amend the W-2, that amount goes in the “Other Income” part of Schedule 1. The IRS has clarified where the total of “Additional Income” from Schedule 1 is reported on Form 1040.
- For nonemployees (e.g., consultants and directors), there is no withholding. Stock compensation income is reported on IRS Form 1099-NEC as self-employment income.
- You report sales of company stock acquired from equity compensation and ESPPs on Form 8949, Sales and Other Dispositions of Capital Assets. Form 8949 information is totaled on Schedule D. The cost basis you report on Form 8949 usually needs an adjustment from the figure reported to you on Form 1099-B because the cost basis is likely to be incomplete.
- The IRS routinely postpones the filing due date for taxpayers in areas affected by natural disasters. You can find out whether you qualify for a postponement on the IRS website in the “Tax Relief in Disaster Situations” section.



Highlights of IRS Form 1040 and Schedules

Below are key aspects of Form 1040 and its associated schedules and forms when you have income from equity compensation and company stock sales.

- 1. Compensation.** Stock compensation, along with salary income reported in Box 1 of Form W-2, is entered on Line 1a of Form 1040. If you are filing a joint return with your spouse, include your spouse's W-2 income with yours.
- 2. Capital gains or losses.** If you sold shares during the 2023 tax year, you will enter the sales on Form 8949 and report the total on Schedule D. You will then report that Schedule D total on Line 7 of Form 1040.
- 3. Alternative minimum tax (AMT).** AMT is a concern for anyone with incentive stock options (ISOs). It is calculated on IRS Form 6251 (Alternative Minimum Tax—Individuals). The spread at ISO exercise is reported on Line 2i if the stock was not sold during the calendar year of exercise. If you later sold the ISO stock that triggered the AMT, the difference from the ordinary tax is reported on Line 2k.
 - Enter the Form 6251 calculation in Line 1 on Schedule 2 of Form 1040, then attach Form 6251 to Schedule 2. The totals from Part I of Schedule 2 go into Line 17 of Form 1040.
 - The AMT credit generated for an ISO exercise that triggers the AMT is recouped through Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts. Schedule 3 ("Additional Credits and Payments") of Form 1040 has a specific line for any credit for prior minimum tax. The amount from Line 25 of Form 8801 goes into Schedule 3 on Line 6b ("Credit for prior year minimum tax") of Part I. The totals from Part I of Schedule 3 go into Line 20 of Form 1040.
- 4. Equity compensation income mistakenly left off Form W-2.** If your company does not report your employee stock compensation income on Form W-2, the 2023 Schedule 1 indicates that the amount goes in the "Other Income" section on Line 8k ("Stock Options"). In the 2023 Form 1040, the IRS has clarified that it is the total of "Additional Income" from Schedule 1 that goes into Line 8 of Form 1040, not just the amount from Schedule 1, "Total other income."

Alert: The IRS expects you to report and pay tax on income mistakenly left off your Form W-2. An error by your employer does not release you from that obligation.

In the instructions for Schedule 1 of Form 1040, the IRS has made it clear that the "Other Income" section on Schedule 1 is where to put any employee stock option income that was not reported on Line 1 of Form 1040 if it was mistakenly left off your Form W-2:

Line 8k—Stock options. Enter on line 8k any income from the exercise of stock options not otherwise reported on Form 1040 or 1040-SR, line 1h.

If you are not certain whether all equity compensation income (e.g., RSUs) left off the W-2 goes on Line 8k, that information can be added to Line 8z ("Other Income. List type and amount"). As explained in the discussion of Form 1099-NEC below, there is no reporting for nonemployees on the W-2.

- 5. IRS Form 1099-NEC for nonemployees.** For *employees*, tax withholding occurs upon the exercise of nonqualified stock options or stock appreciation rights and upon the vesting of restricted stock or restricted stock units. That income appears on Form W-2. For *nonemployees*, such as consultants and directors, there is no withholding. For nonemployees, income from exercise or vesting appears on IRS Form 1099-NEC ("Nonemployee Compensation") as self-employment income.

The income is shown in Boxes 1 and 7 of Form 1099-NEC and is reported on Schedule C of your Form 1040 tax return. Because this is self-employment income, you also need to calculate any Social Security and Medicare taxes that you owe on Schedule SE.

6. 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. As a result, you may have paid estimated taxes because of income from restricted stock or RSU vesting, NQSO exercises, ISO exercises, or an ESPP purchase or sale. On 2023 Form 1040, estimated tax payments are reported on Line 26.

7. Additional Medicare taxes.. An extra 3.8% tax must be added to the usual tax on capital gains and dividends for people with yearly modified adjusted gross income (MAGI) of more than \$200,000 (or more than \$250,000 for married joint filers). The tax is based on the lesser of either (1) the amount your MAGI exceeds this threshold or (2) your net investment income. You must pay this tax and file IRS Form 8960 (Net Investment Income Tax—Individuals, Estates, and Trusts) with your annual tax return.

For these same taxpayers with high incomes, the Medicare tax on compensation income has increased from 1.45% to 2.35% under the Affordable Care Act. Regardless of your tax-filing status, companies must withhold the tax on compensation paid in excess of \$200,000 during a calendar year (even if you are married and your combined joint income with your spouse is under \$250,000). After the Additional Medicare Tax has been withheld, you must file IRS Form 8959 (Additional Medicare Tax) with your tax return to ensure that enough tax has been paid and to see whether you are eligible for a refund or a credit.

On Schedule 2 of Form 1040, these taxes are reported on their own lines. Line 11 ("Additional Medicare Tax") is for the tax from Form 8959. Line 12 ("Net Investment Income Tax") is for the tax from Form 8960.

Rules for Cost-Basis Reporting of Stock Sales

For stock sales, the IRS rules about reporting cost basis information on Form 1099-B have not changed. With 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 can create confusion and complications with your reporting of stock sales 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 Fidelity's tax guides and supplemental information forms.**

Tax Cuts and Jobs Act (TCJA) Continues to Affect Tax Returns

The TCJA, which took effect in 2018, reduced the rates of the seven income brackets and changed the income thresholds that apply for higher tax rates. It also lowered rates for compensation income, interest, ordinary dividends, and short-term capital gains, and it made changes to the AMT calculation. That tax law continues to be in effect.

Alert: The tax law introduced by the TCJA will expire at the end of 2025 unless Congress extends it.

1. Rates of individual income tax. The rates of the seven income tax brackets are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

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 2023. You must therefore know the tax bracket for your total income. Unless you paid estimated taxes or increased withholding from your salary to cover underwithholding in 2023, you may owe an additional amount with your tax return. Discuss this with a tax professional.

Income Tax Brackets and Rates in 2023

| Income tax rate | Single filers | Married joint filers |
|-----------------|------------------------|------------------------|
| 10% | \$0 to \$11,000 | \$0 to \$22,000 |
| 12% | \$11,001 to \$44,725 | \$22,001 to \$89,450 |
| 22% | \$44,726 to \$95,375 | \$89,451 to \$190,750 |
| 24% | \$95,376 to \$182,100 | \$190,751 to \$364,200 |
| 32% | \$182,101 to \$231,250 | \$364,201 to \$462,500 |
| 35% | \$231,251 to \$578,125 | \$462,501 to \$693,750 |
| 37% | \$578,126 or more | \$693,751 or more |

For tax year 2024, the IRS has increased income tax brackets for annual inflation adjustments by about 5.4%.

2. Changes in the calculation of AMT. The income spread from an exercise of incentive stock options (ISOs) can trigger the AMT when the shares are held beyond the calendar year of exercise. Below are the 2023 exemptions, phaseout amounts, and rate thresholds for the AMT calculation (adjusted annually for inflation).

| Filer Status in 2023 | AMT income exemption amount | Exemption amount phaseout starts at | Exemption amount phaseout ends at | Point where rate rises from 26% to 28% |
|----------------------|-----------------------------|-------------------------------------|-----------------------------------|--|
| <i>Single</i> | \$81,300 | \$578,150 | \$903,350 | \$220,700 <i>(married filing separately: \$110,350)</i> |
| <i>Joint</i> | \$126,500 | \$1,156,300 | \$1,662,300 | \$220,700 |

3. Changes in the income thresholds for long-term capital gains. While it did not change the tax rates on long-term capital gains, 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%. That threshold is no longer similar to that of the top income tax bracket.

2023 Tax Rates on Long-Term Capital Gains and the Related Thresholds of Taxable Income

| Filer status | 0% tax rate on capital gains | 15% tax rate on capital gains | 20% tax rate on capital gains | 3.8% Medicare surtax on capital gains |
|---------------|------------------------------|-------------------------------|-------------------------------|---------------------------------------|
| <i>Single</i> | Up to \$44,625 | \$44,626 to \$492,300 | \$492,300 or more | \$200,000 or more |
| <i>Joint</i> | Up to \$89,250 | \$89,251 to \$553,850 | \$553,850 or more | \$250,000 or more |



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