

ESPP Tax Cheat Sheet

2026 Edition
esppcalc.com

■ DISCLAIMER — EDUCATIONAL PURPOSES ONLY

Not financial, tax, or legal advice. Tax laws change frequently. Always consult a qualified CPA or financial advisor. Verify all figures against current IRS publications.

KEY IRS NUMBERS (SECTION 423)

15%	Maximum discount allowed under qualified ESPP
17.6%	Minimum guaranteed return with 15% discount + lookback
\$25,000	Annual IRS purchase cap — based on FMV at offering date
2 yrs	Hold from offering date for qualifying disposition
1 yr	Hold from purchase date — also required for qualifying
\$24,500	2026 401(k) limit (\$32,500 if age 50+)

LOOKBACK FORMULA

$$\text{Price} = \min(\text{Start}, \text{End}) \times (1 - \text{Discount}\%)$$

Example — stock rises \$100→\$130, 15% discount:

$$\min(\$100, \$130) = \$100 \times 0.85 = \$85 \text{ purchase price}$$

$$\text{Gain: } \$130 - \$85 = \$45/\text{share (+34.6\%)}$$

Example — stock falls \$100→\$75, 15% discount:

$$\min(\$100, \$75) = \$75 \times 0.85 = \$63.75 \text{ purchase price}$$

$$\text{Gain: } \$75 - \$63.75 = \$11.25/\text{share (+17.6\%)}$$

QUALIFYING VS. DISQUALIFYING DISPOSITION

		Disqualifying Disposition
Hold required	≥2 yrs from offering AND ≥1 yr from purchase	Sell any time (even immediately)
Discount taxed as	Ordinary income (lesser: grant discount or gain)	Ordinary income (full spread = W-2 income)
Appreciation above discount	Long-term capital gains (0%, 15%, or 20%)	Short-term capital gains (= ordinary rate)
Best for	Appreciating stock, lower tax bracket	Most people — lock in guaranteed gain now

COST BASIS — THE MOST COMMON MISTAKE

The #1 ESPP tax error: your broker's 1099-B often shows only the price you paid — not the adjusted cost basis. Filing without adjusting means you pay tax on the ordinary income component twice.

CORRECT COST BASIS = price paid + ordinary income on W-2

Example (disqualifying): FMV \$50, purchase \$42.50, 100 shares

Ordinary income = $(\$50 - \$42.50) \times 100 = \$750$ → on your W-2

Adjusted basis = \$4,250 + \$750 = \$5,000 — use this on Form 8949, NOT the \$4,250 shown on 1099-B

TAX FORMS & 2026 FEDERAL RATES

TAX FORMS INVOLVED

Form 3922 — Issued when shares transfer. Has offering date, purchase date, FMV, price paid. Keep forever.

Form 1099-B — From your broker on sale. Often shows wrong cost basis. Always verify.

Form 8949 / Schedule D — Report the sale with your corrected adjusted cost basis.

W-2 Box 1 — Employer includes bargain element for disqualifying dispositions.

Schedule 1 — Report ordinary income here if NOT already on your W-2.

2026 FEDERAL BRACKETS (Single)

\$0 – \$12,300	10%
\$12,301 – \$49,625	12%
\$49,626 – \$106,150	22%
\$106,151 – \$202,900	24%
\$202,901 – \$257,400	32%
\$257,401 – \$643,300	35%
Over \$643,300	37%

2026 LTCG RATES (Single)

\$0 – \$49,350	0%
\$49,351 – \$551,350	15%
Over \$551,350	20%

STATE TAX NOTES

California (9.3%+) — No LTCG preference — all ESPP gains taxed as ordinary income at state level.

New York (4–10.9%) — State + NYC tax can exceed 14%. Model your specific rate carefully.

WA / TX / FL / NV / WY / SD / AK — No state income tax. Full federal LTCG benefit on qualifying dispositions.

OR / MN / NJ — High marginal rates. Qualifying disposition benefit reduced but usually still positive.