Employee stock purchase plan (ESPP) considerations during a volatile market

Watching the ups and downs of the markets can feel a bit unsettling—and leave you with questions about participating in your company's employee stock purchase plan (ESPP). As you make important financial decisions during this unprecedented time, here are some considerations to keep in mind.

Please note this article was originally written for employees based in the U.S., although the concept and most rules apply to employees worldwide. Check the tax code and rules for your country.

You may be able to withdraw your contributions for cash

If you're facing financial hardship, this option may provide short-term access to cash and a potential source of relief. Under most ESPPs, employees can withdraw from the plan at any time before the purchase date (when their contributions are used to purchase shares). Your company will generally return your accumulated contributions back to you through payroll. If your plan doesn't allow withdrawal of your contributions, you may be able to drop your contributions to zero, which would help to increase your take-home pay. Be sure to check your own plan's rules to find out what's available to you.

Keep in mind that procedures and deadlines for withdrawing will vary. You may need to provide written notice to your company and there may be a waiting period before you can reenroll in the future.

You can sell your shares for cash

Once shares have been purchased through your ESPP, you can:

- Hold onto your shares of stock
- Sell your shares to buy other investments
- Sell your shares for cash

Depending (in part) on your immediate need for cash, you could sell some—or all—of your shares. Some plans require shares to be held for a specified period of time before they can be sold; check your plan's rules to see if this applies to you.

If you are selling shares from a qualified ESPP, review your available lots for their qualified (or disqualified) status before selling. A qualified disposition may have more favorable tax treatment. Remember that selling shares from an ESPP is a taxable event; however, taxes will not apply until you file your income tax return for 2020.

Even in a volatile market, an ESPP potentially can be a good deal

Most ESPPs offer a discount from the current price of company stock—so even during a market decline, the price you pay is typically less than the fair market value on the date of purchase. It's like buying your shares on sale. Employees with a long-term view often see a down market as a good time to buy because of the potential growth when the market recovers. Generally, employees can purchase more shares with the same contribution amount when the price is lower—but be sure to check your plan's rules for any applicable share limits.

The price you'll pay for your shares depends on how your plan calculates the purchase price. Some plans calculate the purchase price by discounting the stock price on the purchase date. Other plans have the added benefit of a "lookback" feature, where the discount is applied to the lower of the price at the start of the offering period or on the purchase date. Your plan may also offer a reset or automatic rollover feature, which makes an ESPP an even better deal. Check your plan's rules to see how this works for you.

Partial refunds of excess contributions

Keep in mind the IRS limits ESPP purchases in Section 423 plans to $25,000 in value per calendar year based off the undiscounted price at the start of the offering. If your company stock price has dropped, depending on how much you have contributed to your ESPP, it is more likely that you will hit this limit. You may then receive a refund of your accumulated contributions in excess of this amount.

Keep in mind that investing involves risk.

Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

The value of your investment will fluctuate over time, and you may gain or lose money.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

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.

Fidelity Stock Plan Services, LLC

926593.1.0