Understanding the Intuit ESPP

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Course Description

Participants will gain a better understanding of the role company stock can play in their financial portfolio. Through interactive exercises, participants will attain a good understanding of the terminology and operation of the Intuit Employee Stock Purchase Plan (ESPP). Audience

Those who are eligible to participate in the Intuit ESPP.

Learning Outcomes

- Identify important features of Intuit's ESPP
- Describe insider trading and tipping
- Review tax implications of the ESPP

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The Intuit ESPP

The Intuit Employee Stock Purchase Plan (ESPP) allows you to buy shares of Intuit common stock for at least a 15% discount through after-tax payroll deductions. If you wish to participate in this voluntary plan, you must enroll and designate a contribution percentage.

Eligibility

You are eligible to participate in the plan if:

- You are an employee of Intuit in Australia, Canada, France, India, Israel, the U.K., and the U.S. Full time, part time, seasonal, flex-time, and interns and co-ops are all eligible. OSPs and contingent workers are not eligible **AND**
- You are employed **before** the first day of an open enrollment period **AND**
- You are continuously employed until the next Purchase Date

Enrolling

You can sign up for the ESPP during open enrollment which occurs twice a year from February 15-February 28 or 29 and August 15-August 31.

Enroll online at **https://us.etrade.com**. You can also call E*TRADE at 1-800-838-0908 to enroll or make changes to your contribution percentage.

Employees do not need to sign up for each offering period. Once you become a participant, you are automatically enrolled in subsequent offering periods, unless you withdraw from the Plan or become ineligible to participate.

Contributions

Employees can set aside from 1% to 15% (in whole percentages) of their pre-tax base salary, plus commissions and bonus pay, in the form of after-tax contributions to purchase stock. No interest is paid on contributions.

Changes to Contributions

Employees can change their contribution percentages during open enrollment.

While accruing funds, they can only decrease their contribution once during a three month purchase period as long as it is before the last two weeks of the purchase period. They cannot increase their contribution during a purchase period. Employees may opt to suspend contributions at least two weeks before the end of the purchase period and the funds already accumulated will be used to purchase stocks at the end of the purchase period. After electing to suspend participation, employees must re-enroll to participate in the next offering period.

Any changes you wish to make should be made through your E*TRADE account at **https://us.etrade.com** or by calling 1-800-838-0908.

Offering and Purchase Periods

There are two six-month offering periods per year. Each offering periods contains two three-month purchase periods.

Offering Period	Accumulation of Funds	Purchase Date*
March 16 - September 15	March 16 - June 15	June 15
	June 16 - September 15	September 15
September 16 - March 15	September 16 - December 15	December 15
	December 16 - March 15	March 15

** If purchase date is on a weekend or holiday, purchases will be made on the previous business day.*

Stocks acquired through ESPP will be available in your Stock Plan Connect account 3-5 days after the purchase date. You will receive an email notification once the share are available.

Purchasing of Stock

The money accumulated from your paycheck deductions over the course of the 3 months purchase period will be used to buy stock on the purchase date. You will receive a 15% discount from either the closing price of the stock on the purchase date or the closing price of the stock on the first day of the offering period, whichever is lower. This is known as the look-back feature. Hence if the stock price has increased during the offering period, you will get more than a 15% discount from current market price.

Example 1

Offering Period	March 16 - September 15
Stock Price on March 16, First Day of Offering Period	$100
Stock Price on June 15, Purchase Date	$120
Purchase Price (15% discount from the lower of the two prices)	$85

The plan also has a reset feature in case the stock price goes down. If the stock price has decreased between the offering date and the start of the second purchase period, the reset feature kicks in. The discount will then be based on the lower of the closing price on the second purchase date or the closing price on the first day of the second purchase period.

Example 2

Offering Period	March 16 - September 15
Stock Price on March 16, First Day of Offering Period	$100
Stock Price on June 16, Start of Second Purchase Period	$80
Stock Price on September 15, Purchase Date	$90
Purchase Price (15% discount from the lower of the June 16 or September 15 prices)	$68

On each purchase date, Intuit will purchase for you the number of whole shares that is equal to the total amount of your payroll deductions during the applicable accrual period divided by a 15% discounted purchase price. Any amount remaining in your account that is insufficient to purchase a whole share will be returned to you.

Example 3

Payroll deduction rate for the 6-month offering period	**15%**
Base pay per pay period (assuming semimonthly pay periods)	**$3,000**
ESPP payroll deduction per pay period (deducted from after-tax pay)	**$450**
Total ESPP payroll deductions for the 3-month accumulation period (based on semimonthly pay periods)	**$2,700**
Purchase price for the 3-month accumulation period	**$85**
Number of shares purchased ($2,700 total ESPP deductions divided by $85/share = 31.76 shares)	**31 Shares**

Withdrawing From the Plan

An employee may withdraw from the Plan at any time, except the last two weeks of an accrual period. Any accumulated amount of payroll deductions (without interest) will be refunded as long as the online withdrawal takes place at least 15 days prior to the end of an accrual period. No purchase would then be made.

Any changes you wish to make should be submitted through E*TRADE online at **https://us.etrade.com** or by calling 1-800-838-0908.

Termination of employment terminates participation in the Plan. Contributions are refunded and no shares are purchased.

$25,000 Stock Plan Purchase Limit

Section 423 of the Internal Revenue Code governs employee stock plans and limits an individual participant from purchasing more than $25,000 worth of common stock in any one calendar year. This $25,000 limit is determined on the basis of the fair market value of the company's stock on the first date of an offering period. Keep in mind that the maximum actual contribution amount you can set aside is less than $25,000 due to the discount received when purchasing stock through an employee stock plan.

Example

Assume Nora earns $250,000. Nora has elected to set aside 10% of her compensation to purchase stock through an employee stock plan, which would amount to $25,000. However, Nora would be limited to set aside $21,250 to purchase stock through the employee stock plan because of the purchase discount received. In other words, Nora purchased $25,000 worth of stock based on the value of the stock on the first day of the offering period—the maximum allowed by law—but bought it for $21,250 due to the 15% discount.

Insider Trading and Tipping

While companies generally have their own insider trading and tipping policies in place, it is important to review some basic information. Insider trading is considered illegal for anyone who buys or sells company stock when they possess "material, nonpublic information" relating to that company. It is also illegal to pass such material, nonpublic information on to someone who may buy or sell securities. This is known as tipping.

Material, Non-Public Information

Information about a company that is not known to the general public and is likely to influence a typical investor's decision to buy, sell, or hold company stock is material and nonpublic information. The law requires refraining from buying or selling company securities until after the information has been disclosed to and absorbed by the market. In most cases, the first safe day to trade is the third trading day after the disclosure.

No Trading During the "Blackout Period"

In order to protect the employee and the company from allegations of or even the appearance of insider trading, company policy generally prohibits members of the Board of Directors, officers, and certain employees with early knowledge of financial results or other material company information, from buying or selling company securities during the quarterly "blackout period." This blackout time period varies at each company.

Be aware that shares can still be purchased through ESPP during a blackout period, since the purchase date is fixed. However, shares purchased cannot be sold until the blackout period ends.

Tax Implications of the Intuit ESPP

If shares are purchased under an employee stock plan, no income is reported as a result of the purchase. Instead, ordinary income and capital gain/loss are reported when the stock is disposed. Please consult a tax adviser before disposing of employee stock plan shares. The tax treatment will generally depend on the IRS holding period requirements in the chart below.

Have ESPP shares been sold, gifted, or transferred?

No → No income tax event

Yes ↓

Is it more than 1 year from the purchase date?

No → (see DISQUALIFYING disposition below)

Yes ↓

Is it more than 2 years from the beginning of the offering period?

No → (see DISQUALIFYING disposition below)

Yes ↓ (see QUALIFYING disposition below)

This is a DISQUALIFYING disposition.

A. Ordinary Income (generally reported on a W-2. Record on 1040.): The bargain element* (Even if it's more than the total gain)

B. Capital Gain/Loss (Record on Schedule D):

  Sale Price

— (Purchase Price + Bargain Element)

= Capital gain or loss

This is a QUALIFYING disposition.

A. Ordinary Income (generally not reported on a W-2. Record on 1040). Report the smaller of:

  1) 15% of the stock's FMV on the first day of the offering period shares were purchased OR

  2) Sale Price - Purchase Price

B. Capital Gain/Loss (Record on Schedule D):

  Sale Price

— (Purchase Price + Ordinary Income Paid)

= Long-term capital gain/loss

* Bargain Element = Fair Market Value (FMV) on Purchase Date - Purchase Price

✓ EXERCISE

Lisa has elected to contribute 10% of her $90,000 annual eligible pay through the ESPP to purchase company stock at a 15% discount. The stock's closing price on the first day of the offering period on March 16, 2020 was $100 while the closing price on the purchase date of June 15, 2020, was $110. The company offers a 15% discount on the lower of the two prices and fractional shares may be purchased.

1. **What is the purchase price?**

2. **What is the bargain element per share?**

3. **How many shares would be purchased?**

4. **Assume Lisa sells all the stock purchased during the above period on November 3, 2020 for $115 per share. Is this a qualifying or disqualifying disposition? Calculate how much Lisa would report in ordinary income and capital gain/loss.**

5. **Assume instead that Lisa sells all the stock purchased during the above period on August 13, 2021 for $115 per share. Is this a qualifying or disqualifying disposition? Calculate how much Lisa would report in ordinary income and capital gain/loss.**

6. **Assume instead that Lisa sells all the stock purchased during the above period on April 18, 2022 for $140 per share. Is this a qualifying or disqualifying disposition? Calculate how much Lisa would report in ordinary income and capital gain/loss.**

Answers can be found on page 25.

Suggested Action Items

The following are suggestions only. Whether you wish to take action should be based on your own individual situation and circumstances.

1. Consolidate your Intuit stock info, including source, acquisition date, and basis

2. Chart your expected Intuit stock acquisitions through all sources for 2020

3. Consult with a financial or tax advisor to understand the tax implications of disposition of the stocks acquired through ESPP

4. If necessary, make estimated tax payments or increase tax withholding from paycheck

Appendix
General Tax Information

Important Tax Terms

Ordinary Income	This is typically wages and interest income. Do not qualify for capital gains treatment Income Tax Rates Range from 10%-37%
Capital Gain	A positive difference between the purchase price and selling price of a capital asset as defined by the IRS. The taxation on capital gains depends on how long the capital asset was held. There are two types of capital gains **Short-Term:** Holding an investment for one year or less. Short-term capital gains are generally taxed at ordinary income tax rates. **Long-Term:** Holding an investment for over a year. Long-term capital gains are taxed at a flat rate depending upon the taxpayer's income level.
Capital Gains Tax	**Long Term Rates Are 0%, 15%, and 20% depending on taxable income.**
Capital Loss	A negative difference between the purchase price and selling price of a capital asset as defined by the IRS. Capital losses are deductible against capital gains and against a maximum of $3,000 of ordinary income.
Dividend Income	Dividend income received by an individual shareholder from a domestic or qualified foreign corporation is generally taxed in the same manner as long-term capital gains. Non-qualified dividends are taxed as ordinary income.
Effective vs. Marginal Rate	**Effective:** A blended combination of all the ordinary income tax rates that apply to a person's taxable income. **Marginal:** The percentage of tax paid on the last dollar of ordinary income. Also referred to as your *tax bracket*.

Figuring Federal Tax Liability

Standard Federal Tax Formula

The following simplified calculation shows how to figure the amount of tax owed:

1		**Gross Income**
2	-	**Adjustments to Income** (Student loan interest, deductible IRA contributions, self-employment tax and health insurance, Keogh & SEP plan contributions, etc.)
3	=	**Adjusted Gross Income (AGI)**
4	-	**Standard Deduction or Total Itemized Deductions**
5	=	**Taxable Income**
6		**Calculate Tax** (Based on *Taxable Income*)
7	-	**Credits**
8	+	**Other Taxes** (self-employment, household employment, etc.)
9	=	**Tax Owed**

Standard Deduction Amounts	
Filing Status	**2020**
Single or Married Filing Separately	$12,400
Head of Household	$18,650
Married Filing Jointly	$24,800

2020 Federal Income Tax Rates

Tax Rate	Single	Married, Filing Jointly	Married, Filing Separately	Head of Household
10%	$0-9,875	$0-19,750	$0-9,875	$0-14,100
12%	$9,876-40,125	$19,751-80,250	$9,876-40,125	$14,101-53,700
22%	$40,126-85,525	$80,251-171,050	$40,126-85,525	$53,701-85,500
24%	$85,526-163,300	$171,051-326,600	$85,526-163,300	$85,501-163,300
32%	$163,301-207,350	$326,601-414,700	$163,301-207,350	$163,301-207,350
35%	$207,351-518,400	$414,701-622,050	$207,351-311,025	$207,351-518,400
37%	$518,401+	$622,051+	$311,026+	$518,401+

2020 Long Term Capital Gains Rates

Long-Term Capital Gains Rate	Single	Married, Filing Jointly	Married, Filing Separately	Head of Household
0%	Up to $40,000	Up to $80,000	Up to $40,000	Up to $53,600
15%	$40,001-$441,450	$80,001-$496,600	$40,001-$248,300	$53,601-$469,050
20%	Over $441,450	Over $496,600	Over $248,300	Over $469,050

EXAMPLE

Sandra is single with taxable earned income of $99,000 for 2020. She has no tax credits or other taxes she owes. Here is how her federal tax liability for 2020 would be calculated:

Tax Rate	Filing Single	Tax
10%	$0-9,875	$987.50
12%	$9,876-40,125	$3,629.88
22%	$40,126-85,525	$9,987.78
24%	$85,526-$99,000	$3,233.76
Total Tax Owed		$17,838.92

- Sandra's marginal tax rate is 24%. Sandra's effective tax rate is 18%
- Effective Tax Rate = Tax Owed ÷ Taxable Income
- $17,838.92 ÷ $99,000 = 18.02%

✓ EXERCISE

What is your anticipated gross income? ________________

What is your anticipated adjusted gross income? ________________

What is your anticipated taxable income? ________________

Calculate your anticipated 2020 tax liability in the chart below:

Tax Rate	Filing Status:	Tax
10%		
12%		
22%		
24%		
32%		
35%		
37%		
	Total Tax Owed	

Effective Tax Rate = Tax Owed ÷ Taxable Income

What is your anticipated marginal tax rate for 2020? ________________

What is your anticipated effective tax rate for 2020? ________________

Alternative Minimum Tax (AMT) Calculation

Alternative minimum tax (AMT) attempts to ensure that all individuals pay a minimum amount of tax. It is a separate tax computation, in addition to the regular tax calculation, that you must figure using IRS Form 6251. In effect, AMT eliminates many deductions and credits for certain individuals. AMT and regular tax amounts are compared and you pay whichever one is greater.

AMT Formula

1		**Regular Taxable Income**	
2	+	**Adjustments to Income** (See Below)	
3	+	**Tax Preferences** (See Below)	
4	−	**AMT Exemption***	See Table for Exemption Amount
5	=	**Alternative Minimum Taxable Income (AMTI)**	
6	×	**26% of AMTI up to and including $197,900 in 2020**	
7	+	**28% of AMTI over $197,900 in 2020**	
8	=	**AMT**	

Common Adjustments and Preference Items

- Bargain element on the exercise and hold of an incentive stock option past the end of the year in which it was exercised
- State and local income, personal property, and real estate taxes, limited to $10,000
- The standard deduction (if you do not itemize)
- Tax-exempt interest from certain private activity municipal bonds issued after August 7, 1986, and dividends from mutual funds attributable to interest on those bonds

AMT Exemption Amounts

Filing Status	2020
Single or Head of Household	$72,900
Married Filing Jointly	$113,400
Married Filing Separately	$56,700

*The AMT exemption is subject to phaseout depending on income. For 2020, it is $518,400 for individuals and $1,036,800 for married couples.

What is Estimated Tax?

Estimated tax is the method used to pay tax on income that is not subject to withholding. In addition, estimated tax may have to be paid if the amount of income tax being withheld from a person's salary, pension, or other income is not enough.

When to Start

Estimated tax payments do not need to be made until you have income on which tax will be owed. If you have income subject to estimated tax during the first payment period, the first payment must be made by the due date for the first payment period. All of an individual's estimated tax can be paid at that time, or it can be paid in four installments. If the installment method is used, remaining installment payments must be made by the due dates for the later periods.

When to Pay Estimated Tax

For estimated tax purposes, the year is divided into four unequal payment periods. Each period has a specific payment due date (see chart below). If an insufficient amount of tax is paid by the due date of each of the payment periods, a penalty may be charged even if a refund is due when filing an income tax return. The payment due dates are:

Time Period Covered	Payment Due Date
January 1 through March 31	April 15
April 1 through May 31	June 15
June 1 through August 31	September 15
September 1 through December 31	January 15

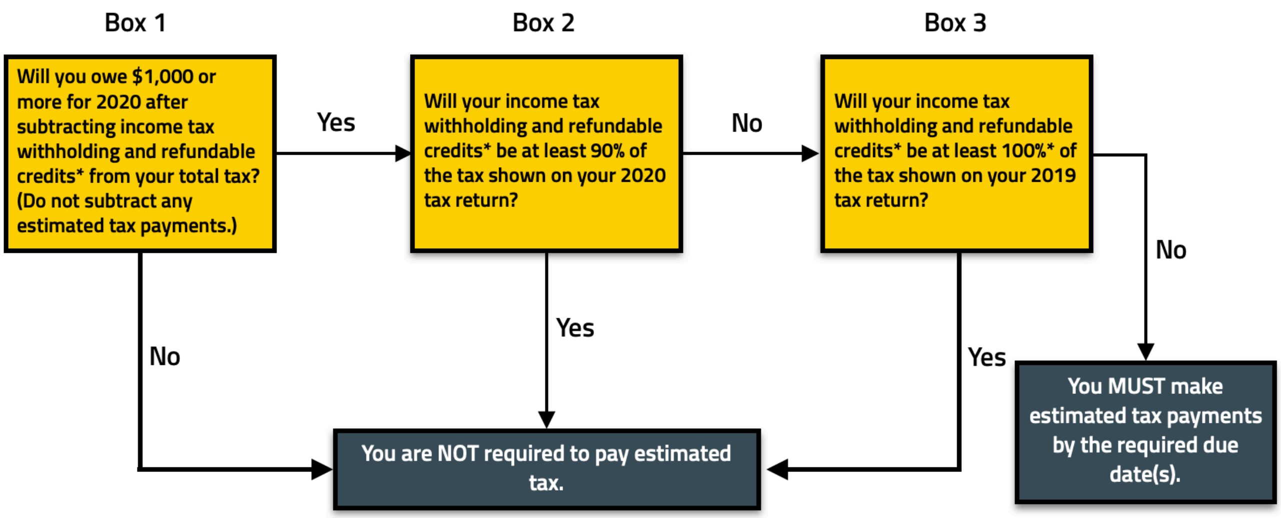
There are four ways to make estimated 2020 tax payments:

1. By crediting an overpayment on a 2019 return to 2020 estimated tax
2. By sending in a payment with a voucher from Form 1040-ES
3. By paying online with your bank account or credit/debit card
4. By having extra taxes withheld from your paycheck

Caution: Estimated taxes are paid on the greater of either regular income tax or AMT.

Estimated Tax Rules

If you are required to make estimated tax payments and do not do so, you will be assessed penalties and interest on the amount of underpayment. If you expect to owe $1,000 or less, you are not required to make estimated payments. Otherwise, to avoid penalties and interest, follow these safe harbor guidelines if your adjusted gross income is $150,000 or less ($75,000 if married filing separate):



**Use the refundable credits shown on the 2020 Estimated Tax Worksheet. For more information, see Publication 505 on irs.gov .*

For taxpayers whose adjusted gross income on their 2020 return is over $150,000 (over $75,000 if married filing separately), they must pay 90% of their 2020 tax or 110% of their 2019 tax if they expect to owe $1,000 or more for 2020[1].

[1] http://www.irs.gov/publications/p505/ch02.html

Illustration A

Eduardo has gathered the following information:

Single Taxpayer	2019 Actual Tax Info	2020 Expected Tax Info
Adjusted Gross Income	$64,200	$87,700
Taxable Income	$56,000	$78,000
Total Tax	$10,557	$15,950

Since Eduardo's 2020 income is expected to increase over last year's, he can follow the guidelines in Box 3 above to pay enough in federal tax. As long as Eduardo's withholding is 100% of his 2019 tax, which was $10,557, he is not required to make estimated tax payments.

Illustration B

Bina and Ravi are expected to earn less in 2020 after cutting back their work hours to spend more time with their children. They have gathered the following information:

Married Filing Jointly	2019 Actual Tax Info	2020 Expected Tax Info
Adjusted Gross Income	$151,700	$139,800
Taxable Income	$135,300	$118,000
Total Tax	$27,288	$23,347

Since Bina and Ravi's 2020 income is expected to decrease, they should use the guidelines in Box 2 and make sure their withholding is $21,012 (90% of $23,347).

It is recommended that you seek the advice of a qualified tax advisor in determining your tax liability and the need to make estimated payments, especially when considering the sale of stocks.

Medicare Tax

The Medicare payroll tax has historically been 2.9%. This tax only applies to earned income—wages you are paid by an employer. The employee is responsible for 1.45% of the tax, and it's deducted automatically from the employee's paycheck. The employer kicks in the other 1.45%.

High-wage earners will owe an additional 0.9% on earned income above a certain threshold as follows:

- $200,000 for single filers
- $250,000 for married couples filing jointly

Example 1: Cesar is an individual filer whose AGI is $225,000. Cesar will pay a 1.45% Medicare tax on the first $200,000, then 2.35% (1.45% plus the excess 0.9%) on the next $25,000. Cesar's employer is required to withhold the extra 0.9% once his wages pass the $200,000 threshold for individuals.

Example 2: Joe and Marianne are married and file a joint return. They each earn $150,000. Their employers will withhold 1.45% for Medicare tax, because neither of them exceeds the $200,000 individual threshold. When they file their joint return however, their combined earned income of $300,000 is $50,000 above the married filing jointly threshold. This means Joe and Marianne underpaid their Medicare tax by $450 (0.9% of $50,000) and will owe the additional amount when they file their taxes.

Unearned Income Medicare Tax

In the past, Medicare taxes were only owed on earned income—income from wages paid by your employer. However, some taxpayers will owe a 3.8% Medicare tax on some or all of their unearned income—income generated from investments such as capital gains, dividends, and taxable interest.

Individuals with AGI over $200,000 and married couples filing jointly with AGI over $250,000 will be subject to an additional 3.8% Medicare tax on the lesser of:

- Net investment income (e.g., interest, dividends, capital gains, royalties, passive income, etc.) **OR**
- The excess of AGI over $200,000 ($250,000 if married filing jointly)

Defining Investment Income

Unearned Net Investment Income Includes the Following:

- Dividends
- Taxable interest
- Net capital gains from the sale of investments (including second homes and rental properties)
- Net rental income
- Royalties
- Passive income from investments in which you do not actively participate (such as a partnership)
- The taxable portion of non-qualified annuity payments

Net Investment Income Does Not Include:

- Tax-exempt interest from municipal bonds (or funds)
- Withdrawals from a retirement plan such as a Traditional IRA, Roth IRA, or 401(k) **AND**
- Payouts from traditional defined-benefit pension plans or annuities that are part of retirement plans

Medicare Surcharge Examples:

EXAMPLE 1: Adam is a single filer with the following income components:

Wages	$180,000
Net Investment Income	$60,000
AGI	$240,000
Threshold	$200,000
Amount Over Threshold	$40,000
Medicare Surtax	3.8% × $40,000 = **$1,520**

Adam owes the 3.8% Medicare tax on the $40,000 over the threshold, because it is less than his net investment income of $60,000. Adam's Medicare surtax will be $1,520 (3.8% of $40,000). He doesn't owe the 0.9% Medicare surtax on wages—his are below the $200,000 earned income threshold for individuals.

EXAMPLE 2: Joan is a single filer with the following income components:

Wages	$220,000
Net Investment Income	$10,000
AGI	$230,000
Threshold	$200,000
Amount Over Threshold	$30,000
Medicare Surtax	3.8% × $10,000 = **$380**

Joan owes the 3.8% Medicare tax on her $10,000 of net investment income because it's less than the amount she is over the threshold ($30,000). Joan also owes an additional 0.9% on the $20,000 she is over the $200,000 earned income threshold for individuals. Her employer will withhold this additional 0.9%.

EXAMPLE 3: Paul and Ann are a married couple that file jointly with the following income components:

Wages	$330,000
Net Investment Income	$42,000
AGI	$372,000
Threshold	$250,000
Amount Over Threshold	$122,000
Medicare Surtax	3.8% × $42,000 = **$1,596**

Paul and Ann owe the 3.8% Medicare tax on their $42,000 of net investment income because it's less than the amount they are over the threshold ($122,000). Note that they also owe an additional 0.9% on the $80,000 they are over the $250,000 earned income threshold for married couples.

Choosing a Tax Professional

Anyone can call him/herself a tax preparer. However, only EAs, CPAs, and tax attorneys can represent clients during an audit.

Enrolled Agent (EA)	Worked for the IRS for 5 years or passed a 2-day IRS administered exam. Must submit to an IRS background check and continuing education requirements.
Certified Public Accountant (CPA)	Licensed by the state and must submit to continuing education requirements.
Tax Attorney	Licensed attorney specializing in tax law. Usually more expensive than other tax professionals, but excellent if facing complicated tax matters.
Return Preparer	These individuals primarily prepare tax returns. They may have independent business or work for such firms as H&R Block. They generally do not have any particular certification requirements.

Referral Services

American Institute of CPAs
www.aicpa.org

National Association of Tax Professionals
www.natptax.com

National Association of Enrolled Agents
www.naea.com

National Society of Accountants
www.nsacct.org

Specific Questions to Ask a Tax Professional:

- What professional qualifications and training do you have?
- How do you stay on top of the latest tax law changes, IRS orders, and court rulings?
- Are you subject to Continuing Education requirements?
- Is preparing tax returns a regular part of your business year-round?
- Are you available to answer tax questions throughout the year?
- Are you experienced with a tax situation like mine?
- Are you aggressive or conservative in interpreting tax laws?
- How much will my tax return cost to prepare?
- Do you have errors and omission insurance?
- Will you pay for penalties and interest from accounting errors?
- How much assistance would you provide if I were audited?

Working With a Tax Professional

- Find out what kinds of clients the tax professional has
- Ask for and check references
- Cut costs by preparing the tax return at home and having a professional review it
- Schedule meetings as early as possible in the New Year
- Bring all important documents to the meeting
- Keep very good records and review the tax return thoroughly. The taxpayer is ultimately responsible for the accuracy of his or her own return, regardless of who prepares it
- File IRS Form 2848, Power of Attorney and Declaration of Representative to authorize another person to represent you when dealing with the IRS

Special Tax Matters

Confidentiality

The IRS is now acknowledging confidentiality between a taxpayer and any federally authorized tax practitioner (i.e. CPA or Enrolled Agent). However, the privilege does not extend to tax shelters, criminal matters, or tax return preparation.

If confidentiality on tax matters is of concern, hire an attorney who in turn hires a CPA or enrolled agent. Attorney-client privilege would then extend to the tax practitioner(s) the attorney has hired.

Paid Preparers Can Now Work Directly With the IRS

Taxpayers can now check a box on their return to authorize the paid preparer who signs the return to work directly with the IRS to fix return processing problems.

Under the current system, the IRS cannot discuss any tax return matters unless taxpayers specifically authorize disclosure of tax information on Form 8821 or give preparers a power of attorney (such as Form 2848) to act for the taxpayer.

The new box will replace Form 8821 but only for return processing issues. Once the IRS completes processing the return, the authorization ends. The new box will not replace a power of attorney and thus will not let preparers represent or act for taxpayers. It also will not cover post-processing matters such as audits or installment agreements.

Why Purchase Stocks?

Investors typically buy stocks to make money. An investor can make money from a stock investment through **Dividends**, **Capital Appreciation**, or both.

Dividends

A dividend provides income to a shareholder. It is a portion of a company's profits that the Board of Directors declares and pays to shareholders. Generally only large, stable companies pay dividends. Newer, smaller companies reinvest their profits for growth.

Capital Appreciation

Capital appreciation is an increase in the market value of a stock. This is also referred to as growth or capital gain.

Stock Returns

A stock's return may be quoted in terms of current yield or total return. To figure a stock's current yield, divide the annual dividend by the current stock price. To figure a stock's total return, add together the total capital appreciation and dividends paid divided by the purchase price. Total return can be calculated annually or cumulatively.

Be Aware

There is no guarantee that money will be made from a stock purchase. Some or all of the money invested in a particular company could be lost.

What Determines Stock Prices?

Many factors influence the ups and downs of stock prices including:

- The supply of and demand for the stock
- A company's fate and fortune
- Economic conditions
- Expectations of a company's earnings potential
- Investor emotions

✓ EXERCISE

1. **When there is a great demand to buy stock, the stock's price generally**

   RISES FALLS

2. **If more investors are selling stock than buying, the stock's price generally**

   RISES FALLS

3. **An investor owns stock in Company A. Company B introduces a cheaper, higher-quality product. Company A's stock price will generally**

   RISE FALL

4. **This type of interest rate generally has a negative effect on stock prices**

   HIGH LOW

5. **A rising consumer confidence index is generally a __________ economic indicator**

   POSITIVE NEGATIVE

6. **Investors generally find rising inflation to be a __________ economic condition**

   FAVORABLE UNFAVORABLE

7. **When a company's earning are expected to increase, the stock price usually**

   RISES FALLS

8. **If a company is expected to lose money or miss projections, the stock usually**

   RISES FALLS

9. **Investors who tend to panic may do this when prices are falling**

   BUY SELL

10. **When purchasing stocks, it is better to buy**

    LOW HIGH

11. **When selling stocks, it is better to sell**

    LOW HIGH

Answers can be found on page 25.

Stock Quotation Terminology

Some of the typical information contained in a stock quotation includes the following:

52 Week High and Low

The highest and lowest price paid to buy the stock over the last 52 weeks.

Symbol

Identifies the company; used for facilitating stock trades and researching the stock.

Dividend

An estimate of the anticipated dollar amount to be paid in cash per share annually.

Yield (%)

A way of expressing the stock's current value; it reflects what an investor will get back for what they paid. This percentage is calculated simply by dividing the dividend by the price of the stock.

P/E Ratio

Known as the price-earnings ratio. This ratio is calculated by taking the price of one share of stock and dividing it by the company's annual earnings per share. The higher the P/E, the more an investor is paying for a company's earnings stream. If "N/A" is listed, the company did not earn a profit in the preceding 12 months.

Volume

This figure represents the number of shares that traded during the specified period.

Last Trade

The stock's closing price for the day.

Change

The current closing price compared with the closing price of the day before.

Answers to Workbook Exercises

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1. $85 (15% discount from $100)
2. $25 ($110 - $85)
3. 26.47 shares ($2,250/$85)
4. Disqualifying. $$661.75 taxed as ordinary income and $$132.35 as short-term capital gain. ($25 x 26.47 shares = $661.75; $115 - ($85 + $25) = $5 x 26.47 shares = $132.35)
5. Disqualifying. $$661.75 taxed as ordinary income and $$132.35 as long-term capital gain. ($25 x 26.47 shares = $661.75; $115 - ($85 + $25) = $5 x 26.47 shares = $132.35)
6. Qualifying. $397.05 taxed as ordinary income and $1,058.80 as long-term capital gain. (.15 × $100 = $15 × 26.47 shares = $397.05; $140-(85 + 15) = 40 × 26.47 shares = $1,058.80)

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1. RISES
2. FALLS
3. FALL
4. HIGH
5. POSITIVE
6. UNFAVORABLE
7. RISES
8. FALLS
9. SELL
10. LOW
11. HIGH

Organizations and Websites

Bankrate www.bankrate.com	*Offers news about recent tax changes, many financial calculators, and comparisons of state tax rates.*
Fairmark Press Tax guide www.fairmark.com	*Offers hundreds of pages of plain-language tax guidance for investors.*
Federation of Tax Administrators www.taxadmin.org	*Offers a directory of general state tax rate information and links to the official state tax sites.*
Certified Financial Planner® Board of Standards, Inc. www.cfp.net	*Maintains a database of individuals with active CFP® certifications or those disciplined by the CFP® Board.*
E*Trade https://us.etrade.com 1-800-838-0908	*Log-in to enroll or make changes to your Intuit ESPP account.*
Internal Revenue Service www.irs.gov/publications	*Offers tax information. Publications and forms can be downloaded, viewed, and printed.*

IRS PUBLICATIONS:

Publication 505: Tax Withholding and Estimated Taxes

Publication 550: Investment Income and Expenses

IRS FORMS:

Form 6251: Alternative Minimum Tax—Individuals

Intuit Benefits www.intuitbenefits.com	*Complete guide to all of your Intuit benefits*
NOLO Press www.nolo.com	*A leading publisher of self-help law books and software. Their website offers a vast array of information and education on everyday legal matters.*

Glossary

Accrual Period: See *Purchase Period*.

American Stock Exchange: An organized exchange in New York City that facilitates securities trading.

Blackout Period: A time during which stock transactions are limited or prohibited.

Broker: A person licensed to execute security transactions.

Capital Appreciation: An increase in the market value of a stock.

Commission: A fee paid to a broker for an investment transaction.

Dividend: A portion of the after-tax earnings that the company's Board of Directors declare and pay to shareholders, usually on a quarterly basis.

Dividend Yield: The annual dividends from a stock divided by its market value per share. This figure measures the current return on a particular stock but does not take into account potential gains and losses in the security's value.

Dow Jones Industrial Average: A price-weighted average of 30 actively traded blue-chip stocks. *Also known as the Dow Jones or Dow*.

Earnings Per Share (EPS): The amount of reportable income, expressed on a per-share basis, that a company has available from which to pay dividends to its common stockholders or to reinvest. EPS is calculated by subtracting preferred stockholder dividends from a company's net income for a particular period and then dividing by the average outstanding shares.

Employee Stock Plan: A plan that allows employees to buy shares of their company's common stock at a discount through after-tax payroll deductions.

Ex-dividend: Stock that no longer has the right to the next dividend payment or split.

Holding Period: The length of time stock is held by its owner.

Insider Tipping: Passing along material, non-public information to someone who may buy or sell securities.

Insider Trading: An illegal act when an associate or employee of a company buys or sells company stock when they possess material, non-public information.

Market Value: The price at which a stock can be traded.

Nasdaq Stock Market: An electronic system for trading securities.

New York Stock Exchange: The oldest organized exchange in the United States that facilitates securities trading. *Also referred to as NYSE*.

Offering Period: A term used in ESPP that defines the time period used to determine purchase price.

Price-Earnings Ratio: Market value divided by the company's earnings per share for the year. The higher the P/E, the more an investor is paying for a company's earnings stream. If there is no P/E listed, the company did not earn a profit in the preceding 12 months. The ratio is a reflection of how much you're paying for a company's earning power. *Also known as PE ratio.*

Price Range: The highest and lowest price a stock has traded at over a period of time.

Purchase Period: The time period over which payroll deductions are accumulated in order to purchase stock in an employee stock plan. Also referred to as *Exercise Period*, *Participation Period*, or *Accrual Period*.

Record Date: The date on which a shareholder must officially own shares in order to be entitled to a dividend or stock split.

Risk: The measurable potential of losing or not gaining value. Generally speaking the greater the risk, the greater the potential for return or profit.

Shareholder or Stockholder: An owner of one or more shares of stock in a corporation, or shares in a mutual fund. Shareholders of common stock are entitled to: (1) receive dividends when earned and declared by the Board of Directors, (2) vote on the election of company directors and other important business, (3) subscribe to additional stock offerings before being offered to the general public, and (4) claim a share of a company's undivided assets proportionate to the amount of shares owned.

Stock: A unit of ownership in a public corporation. Also referred to as *equity* or *security*.

Stock Split: An action that increases a company's number of shares outstanding, without changing the total market value of the company. Effectively a stock split reduces the stock's price to a favorable investing range.

Total Return: Dividend or interest income plus any capital gain. Total return is generally considered a better measure of an investment's return than dividends or interest alone.

Trading Volume: The number of shares of a particular stock that have been traded during a certain time period.

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