

2018 Federal Income Tax Guide For Equity Awards and Related Transactions



This booklet will help explain events connected with your stock option or stock appreciation right (SAR) exercises, the lapse of restrictions on restricted stock, restricted stock units or certain performance awards and related activities in your account.

Your Merrill Lynch 2018 Tax Reporting Statement (Form 1099) is designed to make it easier for you or your tax advisor to prepare your tax return. Your statement contains required reportable tax information connected with the brokerage activities in your Merrill Lynch account for your company's equity award plan during 2018.

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Important:

For employee stock options exercised in 2018, Merrill Lynch is typically capturing only the grant price as cost basis. Consequently, there may be instances where cost basis is understated on your Form 1099-B.

Please note: Tax consequences described in the booklet are based on federal tax law in effect at the time this document was prepared. Neither Merrill Lynch nor any of its affiliates or financial advisors provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions. We recommend bringing this booklet, along with copies of your confirmations and statements (which can be obtained at www.benefits.ml.com), to your accountant or tax preparer.

All examples presented are hypothetical and do not reflect actual clients. They are for illustrative purposes only and results will vary.

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Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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Explanation of Grant Types

Merrill Lynch's service for stock-based compensation plans supports several types of grants, each with varying features and tax implications. To assist you when reading this guide, we have explained the grant types below. Refer to your plan document and/or grant information provided by your company to determine the grant types that pertain to you. In non-U.S. locations, tax implications may vary; consult your employer or tax advisor.

- **Nonqualified (Non-Statutory) Stock Options** give you the right to purchase company stock at a specific exercise price over a stated term. Upon exercise, U.S. participants will recognize ordinary income (Form W-2) equal to the difference between the fair market value of the company's stock on the date of exercise and the option price. This income is subject to immediate tax withholding at the time of exercise, with any subsequent realized appreciation in value above your cost basis treated as a capital gain.
- **Incentive Stock Options (ISO)** give you the right to purchase company stock at a specific exercise price over a stated option term. An ISO entitles you to favorable tax treatment if the acquired shares are held for at least one year from the date of exercise and two years from the date of grant.
- **Stock Appreciation Rights (SAR)** give you the right to benefit from the performance of your company stock without the full rights associated with shareholder status unless you exercise your SAR and receive the underlying shares. Upon exercising a SAR, any realized appreciation is paid in cash and/or shares and is based on the increase in value per share between the grant date and the exercise date. The realized appreciation is taxed as ordinary income (Form W-2) and is subject to tax withholding on the exercise date.
- **Restricted Stock** means shares of your company's stock are awarded to you without cost or at a price determined by your company. The shares, when issued, are subject to certain restrictions and typically vest in increments over a period of several years. Dividends or dividend equivalent units may be paid, and you may have voting rights during the restricted period. Generally, when the restrictions on the restricted stock lapse (vest/vesting), you will recognize ordinary income (Form W-2) equal to the fair market value of your company's stock on the date of restriction lapse less any amount you may have paid for the stock.
- **Restricted Stock Units** give you the right to receive a future delivery of shares subject to vesting. The units are subject to certain restrictions and typically vest over a period of time. A restricted stock unit offers no ownership rights until vesting, but may provide for dividend equivalent units. Generally, when the restrictions on the restricted stock units lapse and shares or cash is paid, you will recognize ordinary income (Form W-2) equal to the fair market value of your company's stock and such income will be subject to tax withholding. In some instances, your employer may settle your restricted stock unit award in cash.
- **Performance Shares** represent an award that is earned based on the attainment of your company's pre-defined performance goals over a given performance period. Each performance share has the value of one share of common stock in the company. Performance shares are subject to forfeiture if the conditions for achievement or vesting are not met. Generally, when the restrictions on the performance shares lapse, you will recognize ordinary income (Form W-2) equal to the fair market value of your company's stock on the date of restriction lapse, less any amount you may have paid for the stock. Tax withholding also applies.
- **Performance Units** represent an award that is earned based on the attainment of your company's pre-defined performance goals over a given performance period. Each performance unit has a stated dollar value equivalent to one share of common stock in the company. Performance units are subject to forfeiture if the conditions for achievement or vesting are not met.. Generally, when the restrictions on the performance units lapse and shares or cash is paid, you will recognize ordinary income (Form W-2) equal to the fair market value of your company's stock on the date of restriction lapse, less any amount you may have paid for the stock. Tax withholding also will apply.

Cost Basis Reporting

On April 18, 2013, the Internal Revenue Service and the U.S. Treasury Department issued final regulations regarding Basis Reporting by Securities Brokers and Basis Determination for Debt Instruments and Options. Under the regulations, for shares acquired from the exercise of employee stock options granted on or after January 1, 2014, when reporting the cost basis of shares sold, securities brokers will no longer be able to increase the cost basis of shares acquired from the exercise to account for the compensation (Form W-2) component recognized as taxable income by the employee. This regulation does not affect your cost basis that is reported on your personal tax return. It only impacts what brokers are permitted to report on a Form 1099-B.

Summary

- To comply with the regulations, Merrill Lynch is providing the grant price as cost basis for all shares acquired on or after January 1, 2014 from incentive stock options (ISOs) and non-qualified stock options (NQs) regardless of exercise method and grant date. Prior to January 1, 2014 Merrill Lynch provided the Fair Market Value (FMV) as cost basis in most instances.
- Merrill Lynch is continuing to report the full cost basis for shares acquired from the exercise of SARs as well as for shares acquired from restricted stock/unit and performance share/unit vesting events.
- Merrill Lynch has adjusted its reporting systems for shares acquired from employee stock options exercised on or after January 1, 2014. You will see the lower cost basis reporting on the holdings page of Benefits OnLine® as well as on the MyMerrill realized gain and loss screens. The lower basis will also be displayed on your 2018 participant statements and 2018 Form 1099-B.
- In some cases, this may also impact wash sale calculations in your account. If you acquire shares through the exercise of employee stock options in 2018, you may need to manually calculate wash sales.
- If you exercise an ISO or NQ in 2018, only the grant price will be reported for cost basis. As a result, you may not be able to rely on the cost basis information in your 2018 Form 1099-B, and will instead need to refer to your exercise confirmations available on Benefits OnLine®.

Non-Qualified Employee Stock Option Example

The following examples illustrate how the new requirement has changed the gain or loss reflected on your Form 1099-B. In each example, assume an exercise and sale of a non-qualified employee stock option for 100 shares with a grant price of \$10, the market price at the time of exercise and sale is \$15, and commissions and fees of \$50. There is ordinary income (Form W-2) equal to the difference between the market price and the grant price multiplied by the option quantity. In this case, $\$15 - \$10 = \$5$ gain per share \times 100 shares = \$500 ordinary income, which is included as income on the Form W-2 issued by the employer.

For a 2013 tax year transaction, Merrill Lynch typically increased the cost basis to account for the Form W-2 income. Therefore, cost basis would be reported as 100 shares \times \$15 = \$1,500, and the sale amount is post commission, so the sale amount would be $\$1,500 - \$50 = \$1,450$. The capital gain/loss is the sale amount minus the cost basis ($\$1,450 - \$1,500 = (\$50)$). In this case, based on your Form 1099-B, there would be a short term capital loss in the amount of the commission and fees of \$50.

For employee stock options exercised on or after January 1, 2014, Merrill Lynch typically will use the grant price of \$10 for the cost basis and will not increase the basis to account for the ordinary income (Form W-2) component. In this case, the reported cost basis on the Form 1099-B is the grant price multiplied by the share quantity ($\$10 \times 100$ shares = \$1,000). The sale amount is post commission so the sale amount would be $\$1,500 - \$50 = \$1,450$. The capital gain/loss is the sale amount minus the cost basis ($\$1,450 - \$1,000 = \$450$). In this case, based on your Form 1099-B, there would be a short term capital gain of \$450 (which is incorrect).

Due to the IRS rule change, for options exercised on or after January 1, 2014, it is your responsibility to increase the cost basis by the ordinary income (Form W-2) amount when preparing your tax return. In the 2014-2018 example, you would need to increase the cost basis by the \$500 that is included in Form W-2 income, which would reduce the overstated capital gain amount of \$450, resulting in a \$50 short term capital loss on your Form 1040 Schedule D instead of a \$450 capital gain.

Example	Option Cost	Sale Amount Post Commission	Ordinary (Form W-2) Income	Cost Basis Reported on Form 1099-B	Commissions and fees	Capital Gain/(Loss) Actual	Capital Gain/(Loss) on Statement
	A 100 x \$10	B	C	D	E	F	G B-D=G
2013 Reporting	\$1000	\$1450	\$500	\$1500	\$50	(\$50)	(\$50)
2014-2018 Reporting	\$1000	\$1450	\$500	\$1000	\$50	(\$50)	\$450

As the loss in this example is not reported on the statement, any potential wash sale will not be reported on the statement.

Impacted Awards

Beginning in 2014, Merrill Lynch adjusted the reporting for the types of awards highlighted in red.

Award Type	2014-2018 Method Used to Report Cost Basis	2013 & Prior Method Used to Report Cost Basis	Acquisition Date	Covered / Non-Covered
ISO Exercise and Sell	Grant Price	FMV	Trade Date	Covered
ISO Sell to Cover	Grant Price	FMV	Trade Date	Covered
ISO Cash Purchase	Grant Price	Grant Price	Trade Date	Covered
NQ Exercise and Sell	Grant Price	FMV	Trade Date	Covered
NQ Sell to Cover	Grant Price	FMV	Trade Date	Covered
NQ Cash Purchase	Grant Price	FMV	Trade Date	Covered
SAR Stock Settled	FMV	FMV	Trade Date	Non-Covered
SAR Cash Settled	FMV	FMV	Trade Date	Non-Covered
Restricted Stock Unit	FMV	FMV	Vest Date	Non-Covered
Restricted Share	FMV	FMV	Vest Date	Non-Covered
Restricted Share Retirement Eligible (RE)	FMV on RE Date	FMV	RE Date	Non-Covered
Restricted Cash Unit	FMV	FMV	Vest Date	Non-Covered
Restricted 83b	Grant Date FMV	Grant Date FMV	Grant Date	Non-Covered
Performance Stock Unit	FMV	FMV	Vest Date	Non-Covered
Performance Share	FMV	FMV	Vest Date	Non-Covered
Performance Share RE	FMV on RE Date	FMV	RE Date	Non-Covered
Performance Cash Unit	FMV	FMV	Vest Date	Non-Covered

Merrill Lynch Tracks Cost Basis for Securities Acquired for Cash

The Energy Improvement and Extension Act of 2008 (the “Act”) requires all brokers to report adjusted basis (aka “cost basis” and “tax lot detail”) for “covered securities” on Form 1099-B and to indicate whether the holding periods of those covered securities disposed of were short or long-term for capital gains tax purposes. These requirements specifically apply to holdings that have been designated by applicable tax law as “covered securities” and began to phase in over a three-year period beginning on January 1, 2011.

To comply with the Act, Merrill Lynch provides exercise and sale-related cost basis information on your Form 1099 Tax Reporting Statement and quarterly brokerage statements. You can view cost basis information on the holdings page of Benefits OnLine® as well as other brokerage related detail screens. The “Holdings” page will provide the cost basis and other information related to taxes on awards.

This information includes:

- Acquisition date
- The quantity and unit cost for each holding
- The cost basis and current market value for each holding
- The source of each holding

In addition, your Form 1099 Tax Reporting Statement will show exercise and sale-related cost basis information for certain transactions completed after cost basis tracking has been implemented.

The statement includes:

- The sale price for transactions
- The cost basis and gain or loss for each transaction
- Federal backup withholding taxes (if applicable), deductible expenses (such as commissions), and more

Cost basis tracking is required for securities acquired for cash on or after January 1, 2011. This includes:

- **Cashless full sale:** Shares acquired from an exercise of an employee stock option
- **Cash purchase:** Shares acquired from a cash exercise of an employee stock option
- **Cashless hold:** Shares acquired from a cashless hold of an employee stock option

Cost basis tracking is generally not required for securities where you do not pay cash to acquire the security. This includes:

- **Restricted stock lapse:** Shares acquired from restricted stock vesting events
- **Restricted stock unit lapse:** Shares acquired from restricted stock unit vesting events
- **Performance lapse:** Shares acquired from performance share or performance unit vesting events
- **SAR:** Shares acquired from a stock appreciation right exercise (SAR)
- **Stock swaps:** When a stock option is exercised using the stock swap exercise method, long shares are used to cover the exercise price, or in some cases long shares are used to cover both the exercise price and taxes. In this case, Merrill Lynch is not required to track cost basis for shares acquired because the shares are not acquired for cash when the long shares are used to pay the exercise price. Merrill Lynch reports the grant price for net shares from a non-qualified option swap, and \$0 for net shares from an incentive stock option swap.

Note: If you use a small amount of cash to cover fractional amounts or rounding to cover the total exercise cost due, the entire transaction should be considered covered and cost basis tracking by your broker is required.

Wash Sales

- A wash sale occurs when you sell or otherwise dispose of stock or securities at a loss, and within 30 days either before or after the sale (61-day period) you:
 - Buy substantially identical stock or securities;
 - Acquire substantially identical stock or securities in a fully taxable trade;
 - Acquire a contract or option to buy substantially identical stock or securities; or
 - Acquire substantially identical stock or securities for your traditional individual retirement account (IRA) or Roth IRA.

If you sell stock at a loss and your spouse or a corporation you control buys substantially identical stock, you also have a wash sale.

If your loss was disallowed because of the wash sale rules, add the disallowed loss to the cost basis of the newly acquired stock or securities (unless it is an IRA or Roth IRA purchase). The result is your cost basis in the new stock or securities. Your holding period for the new stock or securities includes the holding period of the stock or securities sold at a loss.

See IRS Publication 550 for additional details regarding wash sales.

Under the cost basis regulations effective 1/1/2011, Merrill Lynch will only track and report to the IRS certain wash sales.

Merrill Lynch will only track and report wash sales if the purchase and sale occur in the same account and are of identical (not substantially identical) stock or securities. If you have more than one Merrill Lynch account, you are responsible for tracking and reporting any wash sales that occur with purchases in one account and sales in another. You are also responsible for tracking and reporting wash sales to the extent you have purchases and sales at multiple broker dealers.

Equity Award Transactions Can Trigger Wash Sales

The exercise of an employee stock option and the vesting of restricted shares are acquisitions of securities and may trigger wash sale rules. In addition, if you are an employee of a corporation with an incentive pay plan and are given shares of the corporation's stock as a bonus award, include the fair market value in your gross income, sell the shares at a loss, then receive another bonus award of substantially identical stock within 30 days of the sale, wash sale rules are implicated as described in the second Wash Sale example on Page 58 of IRS Publication 550. www.irs.gov/pub/irs-pdf/p550.pdf

Wash Sale Tracking Required Under Cost Basis Reporting Regulations

Under the cost basis reporting regulations effective 1/1/2011, a broker or custodian must report cost basis and consider certain wash sales when reporting the sale to the IRS and taxpayers. The regulations strictly concern themselves with how a broker or custodian must report wash sales of "covered" securities to the IRS and taxpayers, but do not change how the taxpayer must define and report a wash sale on their tax return.

Equity Award Transactions: Tax-Reportable Events – Example #1:

Exercise of non-qualified stock options/ISOs and SARs or vesting of restricted stock, restricted stock units, performance shares or performance units

- The first taxable event is:
 - (i) the exercise of your non-qualified stock options or SARs,
 - (ii) a disqualifying disposition resulting from an ISO exercise*,
 - (iii) the vesting of restricted stock or restricted stock units, or
 - (iv) the vesting of performance shares or performance units.
- This income is taxable to you as compensation from your employer (i.e., ordinary income):
 - (i) in the year you exercise non-qualified stock options and SARs;
 - (ii) in the year of disposition for a disqualifying disposition of an ISO; or
 - (iii) in the year of vesting for restricted stock, restricted stock units, performance shares, or performance units (for restricted stock units and performance units, assuming the shares are paid upon vesting).
- If you exercised your stock options or SARs at the end of 2018, please contact your employer for the year in which you will have to recognize taxable income.
- The amount of ordinary income recognized from each non-qualified stock option or SAR exercise is equal to the difference between the exercise price of the option or SAR and the fair market value of your company stock on the date of exercise, multiplied by the number of options or SARs exercised.
- The amount of ordinary income recognized from a disqualifying disposition in connection with the exercise of an ISO is equal to the lesser of (i) the difference between the option price of the ISO and the fair market value of your company's stock on the date of exercise, multiplied by the number of options exercised or (ii) the difference between the option price of the ISO and the sale price of the shares acquired upon exercise, multiplied by the number of shares sold.*
- The amount of ordinary income recognized from the vesting of your restricted stock, restricted stock units, performance shares or performance units is equal to the FMV of the stock at vesting, less any amount you have paid for the stock. Any dividends or dividend equivalent units paid prior to vesting are taxed as additional compensation and are subject to withholding in the year paid. If you received restricted stock and timely and properly made a Section 83(b) election, you will recognize ordinary income equal to the excess of the fair market value of the stock over any amount paid for the shares. A subsequent sale of the shares will result in capital gain or loss.
- The income you received from all of your non-qualified stock option or SAR exercises, vesting of restricted stock, restricted stock units, performance shares or performance units, or a disqualifying disposition resulting from an ISO exercise completed in the tax year is reported as part of your total compensation on the Form W-2 you received from your employer.
- Your Form W-2 also reflects any taxes withheld from your non-qualified stock option exercises, SAR exercises, restricted stock units, performance shares or performance units, or any disqualifying dispositions resulting from an ISO exercise, including applicable federal, state and local income and employment taxes.
- To verify the amount of taxable compensation and taxes withheld in connection with your stock option exercise or vesting of restricted stock, restricted stock units, performance shares or performance units, you can refer to the Merrill Lynch transaction confirmation or the recordkeeping statement as of December 31, 2018, which is available on Benefits OnLine® at www.benefits.ml.com.

* Note: If you sold all or a portion of the shares received upon the exercise of an incentive stock option (ISO) prior to the expiration of the requisite holding period (one year from the date of exercise and two years from the grant date), you have a "disqualifying disposition." As a result, you may have to recognize ordinary income and possibly capital gains. If you hold ISO shares until after the expiration of the requisite holding period, the sale of these shares will result in a capital gain/loss.

Equity Award Transactions: Tax-Reportable Events – Example #2:

Stock sale

- If you sold all or a portion of your shares at the time of exercise or vesting, then this sale may result in a capital gain or loss.
- If you exercised an incentive stock option (ISO), the tax implications may vary depending on whether you met the required holding period for the shares you acquired through the exercise. If you met the holding period of more than one year from the exercise date and two years from the grant date, the difference between the option price and the sale price will be taxed as long-term capital gain. However, if you sold all or a portion of shares acquired through an ISO exercise prior to the expiration of the holding period, such sale is a “disqualifying disposition.” As a result, you likely will recognize ordinary income and may also recognize capital gain. At the time the option is exercised, the excess value of the shares over the option price may also give rise to an alternative minimum tax liability.
- For non-qualified stock options, because your cost basis in the stock (i.e., fair market value at time of exercise) may be different from your sale price, you may incur a capital gain or loss. If your cost basis is greater than your sale price, you will have a capital loss when you sell the stock. If your cost basis is less than your sale price, you will have a capital gain.
- For restricted stock, restricted stock units, performance shares or performance units, if you subsequently sell the shares received upon vesting or payout, then your cost basis in the stock (i.e., fair market value at time of vesting) may be different from your sale price. If your cost basis is greater than your sale price, you will have a capital loss when you sell the acquired shares. If your cost basis is less than your sale price, you will have a capital gain when you sell the acquired shares.
- If you elect to sell a portion of your awarded shares to cover your tax obligations due upon exercise/vesting, the fair market value on the exercise/vest date is used to compute taxable compensation due on the award and an appropriate amount of shares are sold at the current market price to cover this tax liability. In this situation, your cost basis in the stock (i.e., fair market value) will generally be the same as the sale price, thus, ordinarily, you will not incur a capital gain or loss. However, depending on the timing of the exercise/vest and sale, your cost may be different from your sale price, and you may incur a capital gain or loss. If your cost basis is greater than your sale price, you will have a capital loss. If your cost basis is less than your sale price, you will have a capital gain.
- Merrill Lynch is required to report your sales proceeds from stock transactions on a Form 1099-B which will be provided to you and the IRS. Even if the sale results in neither a capital gain nor a loss, you must file Form 8949, which you attach to Schedule D of your Form 1040, and you must include the proceeds from the sale of the shares as recorded in your Tax Reporting Statement.
- To assist you in reporting your stock sale and calculating whether that sale resulted in a capital gain or loss, please refer to the worksheet provided on page 15 of this booklet.

Your Tax Reporting Statement

Your Tax Reporting Statement (Form 1099-B) provides a summary of 2018 activities in your account that are subject to tax reporting. It is a detailed, chronological breakdown by security of reportable transactions grouped under different categories: dividends and distributions, and gross proceeds from sales of securities.

In some cases, your Form 1099-B reflects only gross proceeds—that is, the gross dollars received in your account from the sale of securities. If you held stock or other securities in your account, you may also have received reportable dividends.

This statement contains the tax information Merrill Lynch is required to report to the IRS regarding your account activity. As such, it is the basis for determining the information you must report on your Form 1040.

Your Form 1099-B

Form 1099-B facilitates cost basis reporting. The fields on the Form 1099-B report a security's:

- Date of acquisition
- Date of sale
- Cost or other basis
- Amount of loss disallowed due to a wash sale
- Whether the property sold is a noncovered security
- Whether the gain or loss is short-term or long-term

Incentive Stock Options Reported On Form 3921

- If you exercised and acquired shares from an incentive stock option (ISO) during 2018, you will receive a Form 3921 from your employer. Providing the form is an Internal Revenue Code (the Code) requirement. The form will contain information to identify you and the corporation that granted the option as well as:
 - The date the award was granted;
 - The exercise price per share;
 - The date you exercised the option;
 - The fair market value (FMV) on the date you exercised the option; and
 - The number of shares you received from the exercise.
- The form is provided for informational purposes. If you sold shares acquired from the ISO exercise during 2018 either at the time of exercise to cover option costs and taxes or post-exercise, you will have a taxable event. The form can be used in conjunction with your recordkeeping statement and exercise confirmation to determine your tax liability.

How to Report Capital Gain Or Loss

Once you have calculated your capital gain or loss using the Merrill Lynch worksheet, you may have to report the stock sale information on Form 8949, which you attach to Schedule D of your federal income tax return (Form 1040).

Form 8949 and Schedule D for 2018 Tax Year

You should generally complete Form 8949 before completing Schedule D of Form 1040. A sample Form 8949 can be found later in this booklet. Schedule D acts as a summary of all capital gain and loss transactions. You will list your individual sale transactions on Form 8949.

If the gain or loss is short-term, you include this gain or loss on Part I of Form 8949. If the gain or loss is long-term, you report the gain or loss on Part II of Form 8949. You may need to attach multiple copies of Form 8949 to your Schedule D to reflect different transaction types during the 2018 tax year. A separate Form 8949 is required for:

- (A) gains and losses for which you have the basis reported on the Form 1099-B you received,
- (B) gains and losses for which you do not have the basis reported on Form 1099-B, and
- (C) gains and losses for which you did not receive a Form 1099-B.

You will indicate which category the gains and losses fall under by checking either box A, B, or C (for Part I) or box D, E, or F (for Part II) on the form.

In instances where you do not need to make any adjustments to the basis or type of gain or loss (short-term or long-term) reported on Form 1099-B, or to your gain or loss, you may aggregate the total and report directly on Schedule D, line 1a and/or line 8a; without completing Form 8949.

Completing Your Form 8949

In the event you have long or short-term capital gain/loss when you sell or otherwise dispose of your shares you generally would report this gain or loss on Form 8949, which was a new form beginning in 2012. A sample of the form is shown below. If the gain or loss is short-term, you include this gain or loss on Part I of the form shown below. If the gain or loss is long-term, you report the gain or loss on Part II of the form. You may need to attach multiple copies of this form if some of your gains and losses have the cost basis reported on the Form 1099-B you received while other gains and losses do not have the cost basis reported on Form 1099-B, or if you did not receive a Form 1099-B for these gains and losses.

Form 8949 Department of the Treasury Internal Revenue Service	Sales and Other Dispositions of Capital Assets ▶ Go to www.irs.gov/Form8949 for instructions and the latest information. ▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2018</div> Attachment Sequence No. 12A
Name(s) shown on return		Social security number or taxpayer identification number

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- ☐ (B) Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- ☐ (C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	

Part II Long-Term. Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- ☐ (E) Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- ☐ (F) Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	

Completing Your Schedule D

After you report your gain/loss on Form 8949, you will attach your Form 8949 to Schedule D and file as you have in the past. You will list the individual transactions on Form 8949 and report the totals on Schedule D. As in past years, short-term capital gains and losses will be reported in Part I and long-term capital gains and losses will be reported in Part II.

SCHEDULE D (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Capital Gains and Losses

► Attach to Form 1040 or Form 1040NR.

► Go to www.irs.gov/ScheduleD for instructions and the latest information.

► Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

2018

Attachment
Sequence No. **12**

Name(s) shown on return

Your social security number

Part I Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less (see instructions)

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b				
1b Totals for all transactions reported on Form(s) 8949 with Box A checked				
2 Totals for all transactions reported on Form(s) 8949 with Box B checked				
3 Totals for all transactions reported on Form(s) 8949 with Box C checked				
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with Box D checked				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked				
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11

Locating Your Cost Basis - Non-Qualified Employee Stock Option
Exercise Confirmation – Partial Display

Award Info			
Grant Date: 12/14/2010	Symbol: ABC	Options Granted: 1,000	
Exercise Detail:			
Exercise Date 04/07/2018	Fair Mkt Price: \$49.55 X	Options Exercised: 20	Fair Mkt Value at Exercise - \$991.00
Cost Detail			
Grant Price \$12.25	Options Exercised: X 20 -	\$245.00 Option Cost + \$310.70 Tax Withholding + <u>\$50.03</u> Fees & Commissions Total Cost \$605.73	
Tax Detail Tax Code: 1234			
Taxable Compensation on Exercise: \$746.00 (Fair Mkt Value – Option Cost)			
Tax Description	Tax Rate	Tax Due	Tax Paid
Federal	28.00%	\$208.88	\$208.88
State	6.00%	\$44.76	\$44.76
Social Security	6.2%	\$46.25	\$46.25
Medicare	1.45%	<u>\$10.81</u>	<u>\$10.81</u>
		\$310.70	\$310.70
Sales Detail			
Sale Price: \$49.55	Shares Sold: x 20 -	\$991.00 Value of Shares Sold	

Form 1099 – tax reporting statement (partial display)

1099-B 2018 PROCEEDS FROM BROKER & BARTER EXCHANGE TRANSACTIONS (OMB No. 1545-0715)						
Description of Property	Date Acquired	Date Sold or Disposed	Proceeds	Cost Basis	Wash Sale Loss Disallowed	Gain or (Loss)
SHORT TERM CAPITAL GAINS AND LOSSES – 1099-B Line 2 – Box 6 Net Proceeds						
COVERED TRANSACTIONS – Cost basis reported to IRS – Form 8949, Part 1, (A)						
ABC Co. 20.0000	Sale	CUSIP Number 04/07/18	123245678 04/07/18	<u>940.97</u>	<u>245.00</u>	<u>695.97</u>
Covered Short Term Capital Gains and Losses Subtotal				940.97	245.00	695.97

* See page 21 for instructions on obtaining these documents

Note: For employee stock options exercised and sold in 2018, do not use the cost basis reported on your Form 1099, as it is incomplete, and only contains the grant price element. Instead use the Fair Market Value at Exercise from your exercise confirmation as it contains both the grant price and ordinary (Form W-2) income component of the cost basis.

Capital Gain or Loss Worksheet

This worksheet will help you in determining your estimated capital gain or loss for shares sold upon exercise of a non-qualified stock option. Dependent upon your grant type, statement and confirmation titles and headings may vary.

Step 1:

Determine the fair market value of your company's stock at exercise (A):

\$ _____ (A)

Your exercise price can be obtained from your Merrill Lynch Exercise Confirmation.

Award Info			
Grant Date: 12/14/2010	Symbol: ABC	(A)	Options Granted: 1,000
Exercise Detail:			
Exercise Date 04/07/2018	Fair Mkt Price: \$49.55 X	Options Exercised: 20	Fair Mkt Value at Exercise - \$991.00

Step 2:

Determine the number of shares sold (B):

\$ _____ (B)

Your shares sold can be obtained from your Merrill Lynch Tax Reporting Statement (Form 1099-B).

1099-B 2018 PROCEEDS FROM BROKER & BARTER EXCHANGE TRANSACTIONS (OMB No. 1545-0715)							
Description of Property		Date Acquired	Date Sold or Disposed	Proceeds	Cost Basis	Wash Sale Loss Disallowed	Gain or (Loss)
SHORT TERM CAPITAL GAINS AND LOSSES - 1099-B Line 2 - Box 6				Proceeds			
COVERED SHORT TERM CAPITAL GAINS AND LOSSES - Cost basis reported to IRS - Form 8949				(A)			
ABC Co. 20.0000	Sale	CUSIP Number 04/07/18	123245678 04/07/18	940.97	245.00	0.00	695.97
Covered Short Term Capital Gains and Losses Subtotal				940.97	245.00	0.00	695.97

Step 3:
Calculate your tax basis:

$$\frac{\$49.55}{\text{(A) Fair Mkt Price}} \times 20 \text{ (B) Shares Sold} = \$991.00 \text{ (C) Cost (Tax) Basis}$$

Step 4:
Calculate your capital gain or loss

$$\frac{\$940.97}{\text{(D) Reportable Proceeds}} - \frac{\$991.00}{\text{(C) Cost (Tax) Basis}} = (\$50.03) \text{ Capital Gain/(Capital Loss)}$$

For employee stock options, **DO NOT** rely on the cost basis on your 2018 Form 1099-B, it typically contains only the grant price and does not include the ordinary (Form W-2) income component of cost basis. Reliance on the cost basis information in your 2018 Form 1099-B could result in overstatement of capital gains on your tax return.

Dividends and Distributions (Form 1099-DIV)

In the section labeled Form 1099-DIV, your Tax Reporting Statement reflects the total of the dividends and distributions credited to your account for the calendar year. THESE DIVIDENDS AND DISTRIBUTIONS ARE REPORTED ON A FORM 1099-DIV ONLY IF THEY TOTAL AT LEAST \$10.

SAMPLE DATA	
Form 1099-DIV 2018 DIVIDENDS AND DISTRIBUTIONS (OMB No. 1545-0110)	
1a Total Ordinary Dividends	8,220.17
1b Qualified Dividends	2,609.84
2a Total Capital Gain Distributions.....	2,518.85
2b Unrecap. Sec. 1250 Gain	76.90
2c Section 1202 Gain	57.85
2d Collectibles (28%) Gain	1,017.15
3 Nondividend Distributions	98.20
4 Federal Income Tax Withheld	246.04
5 Section 199A Dividends.....	0.00
6 Investment Expenses	0.00
7 Foreign Tax Paid	38.88
8 Foreign Country or U.S. Possession	VARIOUS
9 Cash Liquidation Distributions.....	0.00
10 Noncash Liquidation Distributions	0.00
11 Exempt-Interest Dividends	0.00
12 Specified Private Activity Bond Interest Dividends.....	0.00

Total Ordinary Dividends: Line 1a. Shows total ordinary dividends that are taxable. Include this amount on line 9a of Form 1040. Also, report it on Schedule B (Form 1040) if required.

Qualified Dividends: Line 1b. Shows the portion of the amount in box 1a that may be eligible for the reduced capital gains rates. See the Form 1040 instructions for how to determine this amount. Report the eligible amount on line 9b of Form 1040.

Total Capital Gain Distributions: Line 2a. Shows total capital gain distributions (long-term) from a regulated investment company or real estate investment trust. Report the amount shown in box 2a on Schedule D (Form 1040), line 13. See the Form 1040 instructions.

Line 2b. Shows the portion of the amount in box 2a that is unrecaptured Section 1250 gain from certain depreciable real property. Report this amount on the *Unrecaptured Section 1250 Gain Worksheet—Line 18* in the Schedule D instructions (Form 1040).

Line 2c. Shows the portion of the amount in box 2a that is Section 1202 gain from certain small business stock (which may be subject to an exclusion). See the Schedule D (Form 1040) instructions.

Line 2d. Shows 28% rate gain from sales or exchanges of collectibles. If required, use this amount when completing the *28% Rate Gain Worksheet—Line 18* in the instructions for Schedule D (Form 1040).

Nondividend Distributions: Line 3. Indicates the part of the distribution that is nontaxable because it is a return of your cost (or other basis). You must reduce your cost (or other basis) by this amount for figuring gain or loss when you sell your stock. But if you get back all your cost (or other basis), report future distributions as capital gains. See Pub. 550, Investment Income and Expenses.

Federal Income Tax Withheld: Line 4. Shows backup withholding. A payer must backup withhold on certain payments if you did not give your taxpayer identification number to the payer. See Form W-9, Request for Taxpayer Identification Number and Certification, for information on backup withholding. Include this amount on your income tax return as tax withheld.

How to Report Your Ordinary Dividend Income

To report your ordinary dividend income, first list the total of dividends received through Merrill Lynch in connection with your equity plan brokerage account (Form 1099-DIV, Line 1a) on Form 1040 (Schedule B). Specify “Merrill Lynch” as the payor of the dividend, since Merrill Lynch will report the dividends to the IRS as the payor to you. Also include any other dividends you may have received from other payors on Form 1040 (Schedule B), and total the amounts on Line 6.

Report Total capital gain distributions from line 2a of Form 1099-DIV on Schedule D (Form 1040) line 13.

Backup withholding

The law requires that 24% backup withholding be deducted from all reportable dividend and distribution payments as well as gross proceeds received from sales for any U.S. citizens and residents who fail to furnish a taxpayer identification number (TIN) certified on a Form W-9. If you are neither a U.S. citizen nor a resident, you are required to file a Certificate of Foreign Status (Form W-8 series) to claim an exemption from backup withholding. If you are currently subject to backup withholding because you have not met the above requirements and if you wish to avoid continued backup withholding for 2018, please contact a Merrill Lynch representative immediately.

Backup withholding is also required if the IRS notifies Merrill Lynch that your name and TIN combination is incorrect (withholding required on interest, dividends and gross proceeds), or that you have under-reported dividends and/or interest in the past (withholding on interest and dividends only).

Amounts withheld under the backup withholding rules may be taken as a credit on your tax return. Consult your tax advisor for additional information.

Frequently Asked Questions

When I exercise my stock options or SARs, what is the amount of my gain/income and where is it reported?

For non-qualified stock options and SARs, the amount of your income is equal to the difference between the option price of the options or SARs when granted and the per-share fair market value of your company stock on the day your exercise was effective, multiplied by the number of options or SARs you exercised. The income you received from your exercise is reported as part of your compensation (wages) in Box 1 of the Form W-2 you receive from your employer. You may have an additional capital gain or loss if you sell any of the shares at the time of exercise or at a later date. For non-qualified stock options, this gain or loss is equal to the difference between the cost basis in the newly acquired shares and the sales proceeds. The sales proceeds are shown on the Tax Reporting Statement (Form 1099-B).

Generally, for ISOs there is no taxable event at exercise, unless you sell shares to cover exercise costs (although the alternative minimum tax may apply at exercise for some taxpayers). If a sale of stock acquired upon exercise of an ISO results in a disqualifying disposition, you will have income in the year of sale equal to the lesser of (i) the difference between the fair market value of your company's stock on the date of exercise and the option price, multiplied by the number of options exercised or (ii) the difference between the option price and the sale price, multiplied by the number of shares sold. Income resulting from disqualifying dispositions generally is reported on Form W-2. You also may have a capital gain or loss.

What is the amount of my gain at lapse/vesting of restricted stock, restricted stock units, performance shares or performance units and where is it reported?

The amount of your income is equal to the per-share fair market value of your company stock on the day your restriction lapsed multiplied by the number of shares you acquired, less any amount you may have paid for the stock. The income you received from your restriction lapse is reported as part of your compensation (wages) in Box 1 of Form W-2 you receive from your employer. You may have an additional capital gain or loss if you sell any of the shares at the time of restriction lapse or at a later date. This gain or loss is equal to the difference between the cost basis in the newly acquired shares and the sales proceeds. The sales proceeds are shown on the Tax Reporting Statement (Form 1099-B). If you received restricted stock and timely and properly made a Section 83(b) election, please consult your tax advisor.

Does the Tax Reporting Statement reflect the options or SARs I exercised or the vesting of my restricted stock, restricted stock units, performance shares or performance units?

No. Details of an option or SAR exercise or vesting of restricted stock, restricted stock units, performance shares or performance units are reflected on your record-keeping statement and your exercise confirmation. The Tax Reporting Statement (Form 1099-B) shows any shares sold during the year.

Frequently Asked Questions (continued)

The brokerage statement I received shows that when I exercised options or SARs or my restricted stock, restricted stock units, performance shares or performance units vested, money was taken from my account to pay withholding taxes. Am I going to be taxed twice?

No. You will only be taxed once on the income recognized by exercising stock options or SARs or the vesting of your restricted stock, restricted stock units, performance shares or performance units because you may take a credit on your tax return for withheld taxes. However, you may also have to pay tax on any capital gains you realize when you sell the shares you acquired.

Reportable income (Form W-2):

Generally, when you exercise your nonqualified stock options or SARs, the difference between the grant price and the fair market value on the day you exercise represents ordinary income; when the restrictions on the restricted stock, performance shares or performance units lapse (vest/vesting), you will recognize ordinary income (Form W-2) equal to the fair market value of your company's stock on the date of restriction lapse less any amount you may have paid for the stock. At your employer's discretion, money may have been withheld by your company to cover a portion of the taxes you owe on this income. This income and any withholding taxes are reported on the Form W-2 you receive from your employer.

Generally, for ISOs there is no taxable event at exercise, unless you sell shares to cover exercise costs (although the alternative minimum tax may apply for some taxpayers). If the sale of shares acquired upon exercise of an ISO are sold in a disqualifying disposition, you will recognize income in the year of the sale equal to the lesser of (i) the difference between the fair market value of your company's stock on the date of exercise and the option price, multiplied by the number of options exercised, or (ii) the difference between the option price and the sale price, multiplied by the number of shares sold. At your employer's direction, money may have been withheld to cover taxes due on income resulting from a disqualifying disposition at exercise. These income and withholding taxes generally are reported on the Form W-2 you receive from your employer.

Capital gains or losses:

There may be a difference between the fair market value of your company stock on the day your exercise is effective/restricted stock, restricted stock units, performance shares or performance units vest and the price of any shares you sold. This difference represents your capital gain or loss. If the price of your stock increases, you will realize a capital gain on the sale of the shares. It is important to remember that this capital gain is over and above the ordinary compensation income you recognized from the exercise/vesting of restricted stock, restricted stock units, performance shares or performance units. If the price decreases, you will realize a capital loss on the sale of the shares. If you failed to properly certify your TIN, you may be subject to backup withholding on the sale proceeds.

How can I calculate my capital gain or loss on shares sold as part of a non-qualified stock option exercise?

To calculate your capital gain or loss, first find the dollar amount printed under the heading "Realized Capital Gain and Loss Summary" on your monthly brokerage statement or in the column "Amount" on your Tax Reporting Statement. Then subtract from that dollar amount the result of the following: the per share fair market value of your company's stock on the day your exercise was effective, multiplied by the number of shares that were sold, or you may refer to the worksheet on page 15 of this booklet.

Frequently Asked Questions (continued)

What is the cost (tax) basis of shares I obtained through a non-qualified stock option exercise or the vesting of my restricted stock, restricted stock units, performance shares or performance units?

Generally, for non-qualified stock options or restricted stock, restricted stock units, performance shares or performance units, it is the per-share fair market value of your company's stock on the day your option exercise or equity vesting was effective multiplied by the number of shares.

What is the difference between the option exercise date and the date the stock is sold?

The option exercise date is the day you actually acquire the shares of the company stock through your exercise of an option. The fair market value of your company stock on this date is used to calculate your ordinary income tax. (Refer to your plan's communication material and Merrill Lynch Account Terms and Conditions for more information on how your exercise request is processed.) For tax purposes, the day that you sell the stock acquired through your exercise is called the trade date. The price at which you sell your shares on trade date is used to calculate any capital gain or loss.

I performed a cashless exercise of my incentive stock options (ISO). Why were taxes withheld?

Executing a cashless exercise of an ISO automatically disqualifies the shares sold at exercise to pay exercise costs from any favorable tax treatment associated with an ISO. Upon disqualification of ISO shares, in accordance with your employer's instructions, or your election, you may be subject to immediate tax withholding. Your company provides the applicable tax rates for Merrill Lynch to perform the necessary withholding on the shares sold. A cashless exercise can also be subject to backup withholding if you have failed to properly certify your TIN or non-resident status.

I did not purchase any shares of company stock on the open market this year. Why am I seeing wash sales in my brokerage statements and on my Form 1099?

The exercise of a stock option and the vesting of a restricted stock grant may be considered an acquisition of a security. Merrill Lynch treats such exercises and vesting events as acquisitions of securities. Depending on the timing of your sales and your exercise and vesting events, you may see wash sales in your account based on these events.

Where to Get the Information You Need...

Informational Forms	How to Obtain	Questions
Equity Award Transaction Confirmation	Merrill Lynch sends to you at the time of exercise. Also available online at www.benefits.ml.com	Call a Merrill Lynch Service Representative at the telephone number listed on your Tax Reporting Statement.
Equity Award Annual Statement	Merrill Lynch sends to you in January. Also available online at www.benefits.ml.com	
Tax Reporting Statement (Form 1099)	Merrill Lynch typically sends to you by February 15. Also available online at www.benefits.ml.com	Call a Merrill Lynch Service Representative at the telephone number listed on your Tax Reporting Statement.
Form W-2	Your company should send to you by January 31.	Call your company payroll representative.
Form 1040, Schedule D and related forms	Visit your local IRS office, call (800) TAX FORM, or download the forms from the IRS website at www.irs.gov	Call your local IRS office or consult your tax advisor.

What to Do If You Require Additional Information...

Trained Merrill Lynch representatives are available to answer your questions. They have ready access to all data appearing on your Tax Reporting Statement. Please refer to the telephone number listed on your Tax Reporting Statement to make your telephone inquiries. Merrill Lynch representatives do not, however, provide tax or legal advice.

What to Do If You Require a Correction...

If it is determined that corrections are required on reportable transactions, we will adjust the information we provide to the IRS and issue you a corrected statement reflection any changes that have been made.



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