

# 2019 Year-End Executive Compensation Matters: Annual Reporting Requirements Applicable to Equity Awards

Insights

January 21, 2020

## **Reminder of Annual Reporting of ISO Exercises and ESPP Purchases**

Employers must file information returns with the IRS and provide employees with information statements related to incentive stock option exercises that occurred during calendar year 2019. Similarly, employers (typically relevant only for public companies) must file information returns with the IRS and provide employees with information statements related to initial transfers of stock acquired during 2019 under an employee stock purchase plan that complies with Internal Revenue Code Section 423.

The information returns to be filed with the IRS are Form 3921 (for incentive stock option exercises) and Form 3922 (for transfers of shares acquired under an employee stock purchase plan). Employers may satisfy the requirement to provide employees with an information statement by delivering to the employee “Copy B” of the applicable Form 3921 or 3922 or they may use substitute forms for the employee information statements, provided that the substitute forms meet published IRS guidance as to form and content.

The delivery and filing deadlines are as follows:

- January 31, 2020 – Deadline to furnish an information statement to employees.
- February 28, 2020 – Deadline to file return, if filing a paper copy.

- March 31, 2020 – Deadline to file return, if filing electronically with IRS.

Companies reporting 250 or more transactions (applied separately to transactions under each of Form 3921 and Form 3922) in a year are required to file electronically. Note that each option exercise or stock transfer is a separate transaction, and therefore multiple transactions by a single individual trigger multiple filings.

The penalties for late and incorrect filings range from \$50 to \$270 per form, with a maximum penalty of \$3,282,500. The increased penalty for intentional disregard of these requirements is \$500 per form, with no maximum. The IRS will grant an automatic 30-day extension upon filing a Form 8809, which must be filed electronically or by paper by the applicable deadline. Companies may request an additional 30-day extension due to a claimed hardship, but such extension will not be automatically granted by the IRS and does not extend the due date for delivering “Copy B” of the applicable form to the employee.

Forms 3921 and 3922 are available through the IRS website; instructions for completing and filing the forms can be obtained through this link: <https://www.irs.gov/pub/irs-pdf/i3921.pdf>. Third-party vendors are available to assist companies with preparing and filing Forms 3921 and 3922. For a list of vendors, please contact the attorney with whom you regularly work at Gunderson Dettmer.

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