



## **TRICKS OF THE TRADE**

### **EMPLOYEE STOCK PURCHASE PROGRAMS (ESPP)**

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Many companies offer their employees the benefit of purchasing company stock at a discount through a payroll deduction, which is called an Employee Stock Purchase Program (ESPP). While not required to be, these are typically found in larger public corporations that have more resources to offer this type of benefit to its employees. Generally speaking, the company wants to encourage their employees to buy company stock, as it believes that the employee is more likely to perform better at their job if / when they own company stock.

Here's how the program works. When you "sign up", you coordinate with payroll to deduct a certain percentage (many companies limit it to 10%) of your pay from each paycheck. That money is typically held by the company in a separate account until the end of the period (usually the end of a calendar quarter, but I've also seen every 6 months). After that period has been reached, the company then uses that money to purchase shares of stock usually at a discounted price.

The most common discount I have seen is 15%, which means that if the share price is normally at \$100 per share, you get to purchase the stock at \$85 per share. I have also seen the company provide a 15% discount to the LOWER of the share price at the beginning and end of the time period, so if the stock rose from \$80 per share to \$100 per share during that time period, you are purchasing it at a 15% discount off \$80 per share (or at \$68 per share), while the stock price is \$100 per share.

In some cases, the company may require you to hold the stock for one year in order to capitalize on the discount. This only hurts those individuals who may not be able to afford the payroll deduction. In those cases, we look for ways to "borrow" the money in the first year, and then simply sell the stock after each year's time period has passed, and use those proceeds to fund the purchase of stock in the following time periods.

As you can see, utilizing the ESPP is a terrific way to purchase stock at a discount, and also creates another way in which you could create an extra savings program. Since this is an after-tax

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program, there are no tax penalties for withdrawing the money, and the stock owner would only be subject to capital gains tax on the stock when sold.

If you have any specific questions about your ESPP, you may contact your HR representative, or feel free to call us for advice.