

Taking Full Advantage of Employee Stock Purchase Plans

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A few thousand large U.S. corporations offer employee stock purchase plans (ESPPs) which allow employees to purchase the company's stock at a significant discount using after-tax pay. Approximately 10 million employees participate in qualified ESPPs but participation varies widely—typically from 20% to 40% of a corporation's eligible employees. Most employees with access to an ESPP thus “leave money on the table” by not fully participating. By discussing three approaches to using an ESPP which vary based on an individual's risk tolerance and ability to finance the stock purchase, CPAs can assist clients to take advantage of this significant benefit. The three approaches are:

- (1) “Not willing to take any risk” - instantly sell the stock purchased through an ESPP.
- (2) “Willing to take some risk” - sell the stock purchased through the ESPP after one year (when holding period becomes long-term).
- (3) “Willing to take more risk” - buy and hold stock purchased through an ESPP for many years.

By discussing the pros and cons of these three approaches, CPAs can help many of their clients to make better use of their ESPPs.