Tax Information for the Stock Purchase Plan

The following tax information is provided based upon IRS rules governing this type of Plan. You should consult with your tax advisor if you have any questions regarding the effect of any Plan transactions upon your personal tax situation. If you have any questions regarding these rules, you may contact the Lowe's Tax Department at (336) 658-2424.

****THE INFORMATION BELOW APPLIES TO OFFERING PERIODS ENDING ON OR AFTER MAY 31, 2005****

Q. What are my tax consequences if I exercise an option under Lowe's Stock Options for Everyone Plan ("the Plan") to purchase shares at a discounted price?
An employee purchasing stock under the terms of the Plan will not recognize income for federal or state income tax purposes at the time of purchase, but instead defers the income tax consequences until he or she sells or otherwise disposes of the stock.

Q. What are my tax consequences if I sell my shares immediately upon, or soon after, purchase?
Any sale of shares within twenty four months of their grant date (which is now also the same as the purchase date) is considered by the Internal Revenue Service to be a disqualifying disposition and will result in your loss of the tax deferral features which are available through the Plan. If you dispose of shares acquired under the Plan, either by sale or gift, in a transaction deemed to be a disqualifying disposition, Lowe's is required to include an appropriate amount of compensation in your Form W-2. The amount of compensation included will be the difference between the stock's fair market value at the date of purchase and the amount paid for the stock. Any additional gain or loss would be reported for tax purposes as a capital gain or loss on your personal income tax return.

Example 1: Assume you have made Plan contributions totaling $1,200 for the offering period ending May 31, 2009. Assume also that the fair market value of Lowe's stock was $30 per share at the end of the offering period, so that you are able to purchase 47 shares at $25.50 (85% of $30) with your $1,200 contribution. You sell the 47 shares on January 10, 2010 for $37.50 per share. Lowe's will include $211.50 ($30 fair market value at date of purchase, less amount paid of $25.50, times 47 shares) of additional compensation in your 2010 Form W-2. The remaining gain of $352.50 ($37.50 selling price, less $30 basis ($25.50 paid, plus $4.50 included as additional W-2 compensation) times 47 shares) should be reported as a short-term capital gain on Schedule D of your Form 1040 for 2010. If the shares were held until June 1, 2010 prior to their sale, then the incremental gain would be long-term capital gain.

Example 2: Assume the same facts as in example 1 except that you sell the 47 shares on July 15, 2009 for $25 per share. Again, Lowe's will include $211.50 ($30 fair market value at date of purchase, less amount paid of $25.50, times 47 shares) of additional compensation in your 2009 Form W-2. In this situation you will have a loss of $235 ($25 selling price, less basis of $30, times 47 shares) which should be reported as a short-term capital loss on Schedule D of your Form 1040 for 2009.

Q. What happens if I sell the stock after the twenty four-month period is up?
If stock purchased under the Plan is sold or gifted after twenty four months from its purchase date, you will recognize ordinary income in the amount of the lesser of: (i) the 15% purchase discount received, or, (ii) the actual gain realized. In this case, Lowe's is not required to include income in your Form W-2. Rather, you will be responsible for properly reporting any gain or loss from the sale of your stock on your personal income tax return.

Example 3: Assume the same facts as in example 1 above, except that instead of selling the stock on January 10, 2010, you sell on January 10, 2012 for $50 per share. For the tax year 2012, you would recognize ordinary income of $211.50, the discount of $4.50 per share, times 47 shares. The remaining gain of $940 ($50 selling price, less basis of $30 ($25.50 paid plus $4.50 recognized as ordinary income) times 47 shares) should be reported as long-term capital gain on Schedule D of Form 1040.

Example 4: Assume the same facts as in example 1 above, except that instead of selling the stock on January 10, 2010, you sell on June 10, 2012 for $29 per share. For the tax year 2012, you should recognize ordinary income of $164.50, the 2 lesser of: ((i) the purchase discount of $4.50 per share or, (ii) the actual gain of $3.50 per share) times 47 shares). In this case, the entire gain is reported as ordinary income, so there will be no capital gain to be reported. You would however need to report the sale of the shares on Schedule D, but you would report a basis equal to that of the selling price so there is zero capital gain or loss.

Example 5: Again, assume the same facts as in example 1 above, except that instead of selling the stock on January 10, 2010, you sell on June 10, 2012 for $22.50 per share. For the tax year 2012, you would recognize zero ordinary income since you incurred an actual loss of $3 per share ($22.50 selling price less basis of $25.50). The entire loss of $141 ($3 per share, times 47 shares) will be reported as a long-term capital loss on Schedule D of Form 1040.

Other things to keep in mind regarding participation in the Plan

- As explained above, because Lowe's must include income in your Form W-2 from any disqualifying dispositions, *you are required to notify Lowe's in the event of any sale or other disposition of shares acquired through the Plan within twenty four months from their purchase date*. Shares sold through the broker selected by Lowe's to administer the Plan, E*Trade, will be excused from the notification requirement since all the necessary information can be supplied to Lowe's by E*Trade.
- *If the shares acquired through the Plan are swapped within twenty four months of acquisition date to exercise Incentive Stock Options or Non-Qualified Stock Options, the exchange is deemed to be a disqualifying disposition*, and will result in the loss of the tax deferral and trigger your notification requirements.
- Keep in mind that, even though Lowe's is required to include income in your Form W-2 in the event of a disqualifying disposition, there will be no corresponding federal or state income tax withheld. Y*ou will therefore need to consider any such income in your tax planning to ensure that your withholdings and estimated tax payments are sufficient to avoid any tax underpayment penalties that might otherwise apply.*
- Also, even though income from a disqualified disposition of stock acquired through the Stock Purchase Plan may have been included in your W-2, you must still report the gross proceeds from the sale of the shares on Schedule D of your Form 1040. Failure to do this may result in the issuance of an inquiry or assessment by the Internal Revenue Service. Remember, to avoid double paying tax on any gain included in your W-2, you should increase your cost basis (subtracted from gross proceeds on Schedule D to determine your taxable gain or loss) by the amount of the W-2 income attributable to the shares sold.

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