Employee Stock Purchase Plan

Individual Tax Guide
United States

Gallagher

Insurance | Risk Management | Consulting

Contents

The following is a general overview of the individual tax implications of participation in the Arthur J. Gallagher & Co. (AJG) Employee Stock Purchase Plan (ESPP). This guide is (1) for employees who are residents (for tax purposes) in the U.S. and may not apply to international assignees, business travelers or commuters; and (2) based on U.S. laws and regulations in force as of January 1, 2024, which may be subject to change.

Your participation in the ESPP will likely affect your personal tax position, and the precise implications will depend on your own personal circumstances. Therefore, you are strongly advised to seek appropriate professional guidance as to how the tax and/or other laws apply to your specific situation. AJG will not reimburse you for fees associated with consultation with a personal tax advisor.

This material does not constitute personal tax advice. Rather, it is an effort to help you understand your potential tax responsibilities under the ESPP. For answers to specific tax questions, please consult your personal legal and/or tax advisor.

In order for Deloitte Tax LLP to provide an overview of the individual tax consequences associated with an award under the ESPP, they relied on the plan documents provided by AJG and the general principles of U.S. tax law.

Employee Stock Purchase Plan (ESPP)

1A What is an ESPP?

The purpose of the ESPP is to provide you with an opportunity to purchase shares of AJG common stock at a discount. There are quarterly offering periods whereby you will contribute cash via payroll deductions that will then be used to purchase shares of common stock.

1B How do I participate in the ESPP?

You can enroll in the ESPP by following our electronic enrollment procedures administered by Fidelity Stock Plan Services. At the time of enrollment, you will indicate the amount of deductions, from 1% to 15% of your pay, you would like AJG to withhold from each pay slip during the offering period to put toward the purchase of stock.

You may **withdraw** from the ESPP at any time, and any amount in your ESPP purchase account will be returned to you.

You may also **suspend** your ESPP enrollment at any time, suspending payroll deductions for the rest of the quarter and using any amount already withheld to purchase shares.

1C How will my participation affect my take-home pay?

Your take-home pay will be reduced by the amount you elect to contribute to the ESPP each pay period.

1D Are my ESPP contributions taken from my pay before or after taxes?

Your ESPP contributions are made on an after-tax basis.

1E What are the various stages of the ESPP program?

Offering Period: An offering period (also called a purchase period) occurs each quarter throughout the year beginning on the first trading day on or after 1 January, 1 April, 1 July and 1 October (known as the enrollment date) and ending on the last trading day on or before 31 March, 30 June, 30 September and 31 December (known as the exercise date or, alternatively, the purchase date). During the offering period, your contributions, made via your payroll deductions, will accumulate in an account for the later purchase of shares.

Exercise/Purchase: Exercise date means the last trading day of each offering period or purchase period, as mentioned above. Shares will automatically be purchased on the exercise date. The number of shares purchased will be the number of full shares calculated by considering the total contributions in your account over the purchase price of each share. The purchase price of the shares will be a 5% discount applied to the lesser of the fair market value (FMV) of AJG common stock on the last trading day of the offering period or the first trading day of the offering period.

Sale: After exercise, the shares are yours to sell as you wish.

1F What are the individual income implications throughout the ESPP program?

Offering Period: None

Exercise/Purchase: Once shares are purchased and deposited into your Fidelity account, you will become a shareholder, eligible for payment of any declared dividend.

Fidelity will issue a 1099-DIV statement to you at year-end to report any dividend income you may have received, to be included on your annual income tax return.

Sale: Income tax is payable at the time of sale.

The amount of income subject to tax and the type of tax owed depends on whether you have a qualifying disposition or a disqualifying disposition. The details of each transaction type are described below, but please also see the examples in the tax calculation example section of this document.

Qualifying Disposition
For a qualifying disposition, you must hold:

1. The shares for more than one year after the purchase date and,
2. More than two years from the beginning of the offering period

You will recognize ordinary income and be subject to income tax (FICA taxes will not apply) on the lesser of:

1. The discount at the commencement of the offering period or,
2. The difference between the sale price and the price at which the shares were purchased.

Any additional gain upon sale of the shares will be taxed as a long-term capital gain based on the fair market value of the shares at the time of sale less the cost basis in the shares.

Disqualifying Disposition
If your shares are not sold in a "qualifying" disposition, you will recognize ordinary income and be subject to U.S. federal tax on the difference (or "discount") between the fair market value of the shares on the date of purchase and the purchase price (regardless of the price at which the shares are sold). Any additional gain upon sale of the shares will be taxed as a capital gain based on the fair market value of the shares at the time of sale less the cost basis in the shares.

1G What are the individual social implications throughout the ESPP program?

Any taxable benefit you receive as a result of participating in the ESPP program is not subject to Social Security or Medicare tax, regardless of when you sell the shares. Only federal income tax (as well as state and local, as applicable) is due on this benefit.

1H What are AJG's tax reporting and withholding obligations?

Reporting: AJG will report the acquisition of stock under an ESPP on Form 3922 (Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)). Accordingly, you will receive a Form 3922 for the year in which you purchase the stock under the ESPP.

In the event of a disqualifying disposition, AJG is also required to report any ordinary income recognized in your Form W-2 in the year of sale for federal and state tax purposes.

AJG will not report any capital gain realized when you sell shares.

Withholding: AJG **does not** have a withholding obligation related to your ESPP shares. At sale, you will be required to pay the income tax due as a result of the sale. Please note, depending on the tax that may result upon the sale of your shares, you may wish to make estimated tax payments in the year of sale to mitigate any underpayment penalties. Please consult your personal tax advisor on this point.

1I How will the shares be delivered to me?

The shares will be deposited into your stock plan account maintained by Fidelity as soon as practicable after the close of each offering period. Further, you will receive trade confirmation shortly after purchase, and a monthly, quarterly and annual individual purchase account statement, which provides:

1. Amount of contributions
2. Purchase price of shares
3. Number of shares of common stock purchased
4. Remaining cash balance in the account, if any

Tax Calculation Example

2A Following is an example comparing qualifying and disqualifying disposition.

Facts:

First day of offering period	October 1, 2023
FMV on first day of offering period	$100.00
Last day of offering period (i.e., exercise/purchase date)	December 31, 2023
FMV at date of exercise (last day of offering period)	$110.00
Purchase price (5% discount on FMV at first day of offering)	$95.00
Total shares purchased	10

Tax calculation example (increase in stock price)
At the time of sale, the FMV of the stock is $125.00 per share.

	Qualifying Disposition If sold after October 2, 2025	Disqualifying Disposition If sold before October 2, 2025
Proceeds as result of sale ($125.00*10)	$1,250.00	$1,250.00
Cost basis of the shares at purchase ($95.00*10)	($950.00)	($950.00)
Taxable gain	$300.00	$300.00

Determination of Income Type

Ordinary income ($100.00–$95.00)*10	$50.00	$150.00
Capital gain ($300.00 taxable gain—$50.00 reported as ordinary income)	$250.00	$150.00

Tax Calculation - Ordinary Income & Capital Gains

Tax on ordinary income (assumes 22% tax bracket)	$11.00	$33.00
Tax on long-term capital gain (15% tax)	$37.50	
Tax on short-term capital gain (22% tax)		$33.00
Total Tax	$48.50	$66.00

In this scenario, the disqualifying disposition resulted in additional taxes of $17.50.

2A Following is an example comparing qualifying and disqualifying disposition. (Continued)

Facts:

First day of offering period	October 1, 2023
FMV on first day of offering period	$100.00
Last day of offering period (i.e., exercise/purchase date)	December 31, 2023
FMV at date of exercise (last day of offering period)	$110.00
Purchase price (5% discount on FMV at first day of offering)	$95.00
Total shares purchased	10

Tax calculation example (decrease in stock price)

At the time of sale, the FMV of the stock is $85.00 per share.

	Qualifying Disposition If sold after October 2, 2025	Disqualifying Disposition If sold before October 2, 2025
Proceeds as result of sale ($85.00*10)	$850.00	$850.00
Cost basis of the shares at purchase ($95.00*10)	($950.00)	($950.00)
Loss on sale	($100.00)	($100.00)

Determination of Income Type

Ordinary income	No ordinary income due to loss	
Ordinary income ($110.00-$95.00)*10		$150.00
Capital loss ($850.00 proceeds - $950.00 basis)	($100.00) [1]	
Capital loss (-$100.00 loss on sale - $150.00 reported as ordinary income)		($250.00)[1]

Tax Calculation (Ordinary Income)

Tax on ordinary income (assumes individual is in the 22% tax bracket)	$0.00	$33.00

In this scenario, the disqualifying disposition resulted in ordinary income, even when the shares were sold at a loss.

[1] Losses from capital transactions are deductible to the extent that you have capital gain income and are also deductible from ordinary income up to $3,000. Losses above the $3,000 limit may be carried forward and utilized in future years.

These amounts are for illustrative purposes only, and may not reflect the actual tax effect of capital gains and losses on your personal income tax return. Please consult your tax advisor for use of capital losses to offset income.

General Tax Information

1. What if I have additional questions about my personal requirements?

This individual tax guide provides a general overview of the individual tax implications of participation in the Arthur J. Gallagher & Co. (AJG) Employee Stock Purchase Plan. Please consult with your personal legal and/or tax advisor for specific questions relating to your personal circumstances.

2. Who do I contact with questions?

For questions regarding the contents of this document, you may email ajg_equity_compensation@ajg.com.