

health benefits account or welfare benefit fund (as defined in section 419(e)(1)) to pay for the qualified current retiree health liabilities. The portion of any reserves remaining as of the close of December 31, 1990, shall be allocated on a pro rata basis to qualified current retiree health liabilities.”

Subsec. (e)(1)(D). Pub. L. 103-465, § 731(c)(3), substituted “and shall not be subject to the minimum benefit requirements of subsection (c)(3)” for “or in calculating applicable employer cost under subsection (c)(3)(B)”.

EFFECTIVE DATE OF 2014 AMENDMENT

Amendment by Pub. L. 113-97 applicable to years beginning after Dec. 31, 2013, see section 3 of Pub. L. 113-97, set out as a note under section 401 of this title.

EFFECTIVE DATE OF 2012 AMENDMENT

Amendment by section 40211(a)(2)(D) of Pub. L. 112-141 applicable with respect to plan years beginning after December 31, 2011, except as otherwise provided, see section 40211(c) of Pub. L. 112-141, set out as a note under section 404 of this title.

Pub. L. 112-141, div. D, title II, § 40241(c), July 6, 2012, 126 Stat. 859, provided that: “The amendments made by this Act [probably should be “section”, amending this section and sections 1021, 1103, and 1108 of Title 29, Labor] shall take effect on the date of the enactment of this Act [July 6, 2012].”

Pub. L. 112-141, div. D, title II, § 40242(h), July 6, 2012, 126 Stat. 864, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section, section 79 of this title, and section 1021 of Title 29, Labor] shall apply to transfers made after the date of the enactment of this Act [July 6, 2012].

“(2) CONFORMING AMENDMENTS RELATING TO PENSION PROTECTION ACT.—The amendments made by subsections (b)(3)(B) and (f) [amending this section] shall take effect as if included in the amendments made by section 841(a) of the Pension Protection Act of 2006 [Pub. L. 109-280].”

EFFECTIVE DATE OF 2008 AMENDMENT

Amendment by Pub. L. 110-458 effective as if included in the provisions of Pub. L. 109-280 to which the amendment relates, except as otherwise provided, see section 112 of Pub. L. 110-458, set out as a note under section 72 of this title.

EFFECTIVE DATE OF 2007 AMENDMENT

Pub. L. 110-28, title VI, § 6612(c), May 25, 2007, 121 Stat. 181, provided that: “The amendments made by this section [amending this section] shall take effect as if included in the provisions of the Pension Protection Act of 2006 [Pub. L. 109-280] to which they relate.”

Pub. L. 110-28, title VI, § 6613(b), May 25, 2007, 121 Stat. 181, provided that: “The amendment made by subsection (a) [amending this section] shall apply to transfers after the date of the enactment of this Act [May 25, 2007].”

EFFECTIVE DATE OF 2006 AMENDMENT

Amendment by section 114(d) of Pub. L. 109-280 applicable to plan years beginning after 2007, see section 114(g)(1) of Pub. L. 109-280, as added by Pub. L. 110-458, set out as a note under section 401 of this title.

Pub. L. 109-280, title VIII, § 841(b), Aug. 17, 2006, 120 Stat. 1009, provided that: “The amendments made by this section [amending this section] shall apply to transfers after the date of the enactment of this Act [Aug. 17, 2006].”

Pub. L. 109-280, title VIII, § 842(b), Aug. 17, 2006, 120 Stat. 1009, provided that: “The amendment made by this section [amending this section] shall apply to transfers made in taxable years beginning after December 31, 2006.”

EFFECTIVE DATE OF 2004 AMENDMENT

Pub. L. 108-357, title VII, § 709(b)(3), Oct. 22, 2004, 118 Stat. 1552, provided that: “The amendments made by

this subsection [amending this section] shall apply to taxable years ending after the date of the enactment of this Act [Oct. 22, 2004].”

EFFECTIVE DATE OF 1999 AMENDMENT

Pub. L. 106-170, title V, § 535(c), Dec. 17, 1999, 113 Stat. 1935, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and sections 1021, 1103, and 1108 of Title 29, Labor] shall apply to qualified transfers occurring after the date of the enactment of this Act [Dec. 17, 1999].

“(2) TRANSITION RULE.—If the cost maintenance period for any qualified transfer after the date of the enactment of this Act [Dec. 17, 1999] includes any portion of a benefit maintenance period for any qualified transfer on or before such date, the amendments made by subsection (b) [amending this section] shall not apply to such portion of the cost maintenance period (and such portion shall be treated as a benefit maintenance period).”

EFFECTIVE DATE OF 1994 AMENDMENT

Pub. L. 103-465, title VII, § 731(d), Dec. 8, 1994, 108 Stat. 5004, provided that:

“(1) EXTENSION.—The amendments made by subsections (a) and (c)(3) [amending this section] shall apply to taxable years beginning after December 31, 1995.

“(2) BENEFITS.—The amendments made by subsections (b) and (c)(1) and (2) [amending this section] shall apply to qualified transfers occurring after the date of the enactment of this Act [Dec. 8, 1994].”

EFFECTIVE DATE

Pub. L. 101-508, title XII, § 12011(c), Nov. 5, 1990, 104 Stat. 1388-571, provided that:

“(1) IN GENERAL.—The amendments made by this section [enacting this section and amending section 401 of this title] shall apply to transfers in taxable years beginning after December 31, 1990.

“(2) WAIVER OF ESTIMATED TAX PENALTIES.—No addition to tax shall be made under section 6654 or section 6655 of the Internal Revenue Code of 1986 for the taxable year preceding the taxpayer’s 1st taxable year beginning after December 31, 1990, with respect to any underpayment to the extent such underpayment was created or increased by reason of [former] section 420(b)(4)(B) of such Code (as added by subsection (a)).”

APPLICABILITY OF AMENDMENTS BY SUBTITLES A AND B OF TITLE I OF PUB. L. 109-280

For special rules on applicability of amendments by subtitles A (§§ 101-108) and B (§§ 111-116) of title I of Pub. L. 109-280 to certain eligible cooperative plans, PBGC settlement plans, and eligible government contractor plans, see sections 104, 105, and 106 of Pub. L. 109-280, set out as notes under section 401 of this title.

PART II—CERTAIN STOCK OPTIONS

Sec.	
421.	General rules.
422.	Incentive stock options.
[422A.]	Renumbered.]
423.	Employee stock purchase plans.
424.	Definitions and special rules.
[425.]	Renumbered.]

AMENDMENTS

1990—Pub. L. 101-508, title XI, § 11801(b)(6), (c)(9)(A)(ii), Nov. 5, 1990, 104 Stat. 1388-522, 1388-524, struck out items 422 “Qualified stock options” and 424 “Restricted stock options” and redesignated items 422A and 425 as 422 and 424, respectively.

1981—Pub. L. 97-34, title II, § 251(b)(6), Aug. 13, 1981, 95 Stat. 259, added item 422A.

1964—Pub. L. 88-272, title II, § 221(a), Feb. 26, 1964, 78 Stat. 63, substituted “CERTAIN STOCK OPTIONS” for

“MISCELLANEOUS PROVISIONS” in part II heading, and “General rules” for “Employee stock options” in item 421, and added items 422–425.

§ 421. General rules

(a) Effect of qualifying transfer

If a share of stock is transferred to an individual in a transfer in respect of which the requirements of section 422(a) or 423(a) are met—

(1) no income shall result at the time of the transfer of such share to the individual upon his exercise of the option with respect to such share;

(2) no deduction under section 162 (relating to trade or business expenses) shall be allowable at any time to the employer corporation, a parent or subsidiary corporation of such corporation, or a corporation issuing or assuming a stock option in a transaction to which section 424(a) applies, with respect to the share so transferred; and

(3) no amount other than the price paid under the option shall be considered as received by any of such corporations for the share so transferred.

(b) Effect of disqualifying disposition

If the transfer of a share of stock to an individual pursuant to his exercise of an option would otherwise meet the requirements of section 422(a) or 423(a) except that there is a failure to meet any of the holding period requirements of section 422(a)(1) or 423(a)(1), then any increase in the income of such individual or deduction from the income of his employer corporation for the taxable year in which such exercise occurred attributable to such disposition, shall be treated as an increase in income or a deduction from income in the taxable year of such individual or of such employer corporation in which such disposition occurred. No amount shall be required to be deducted and withheld under chapter 24 with respect to any increase in income attributable to a disposition described in the preceding sentence.

(c) Exercise by estate

(1) In general

If an option to which this part applies is exercised after the death of the employee by the estate of the decedent, or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent, the provisions of subsection (a) shall apply to the same extent as if the option had been exercised by the decedent, except that—

(A) the holding period and employment requirements of sections 422(a) and 423(a) shall not apply, and

(B) any transfer by the estate of stock acquired shall be considered a disposition of such stock for purposes of section 423(c).

(2) Deduction for estate tax

If an amount is required to be included under section 423(c) in gross income of the estate of the deceased employee or of a person described in paragraph (1), there shall be allowed to the estate or such person a deduction with respect to the estate tax attributable to

the inclusion in the taxable estate of the deceased employee of the net value for estate tax purposes of the option. For this purpose, the deduction shall be determined under section 691(c) as if the option acquired from the deceased employee were an item of gross income in respect of the decedent under section 691 and as if the amount includible in gross income under section 423(c) were an amount included in gross income under section 691 in respect of such item of gross income.

(3) Basis of shares acquired

In the case of a share of stock acquired by the exercise of an option to which paragraph (1) applies—

(A) the basis of such share shall include so much of the basis of the option as is attributable to such share; except that the basis of such share shall be reduced by the excess (if any) of (i) the amount which would have been includible in gross income under section 423(c) if the employee had exercised the option on the date of his death and had held the share acquired pursuant to such exercise at the time of his death, over (ii) the amount which is includible in gross income under such section; and

(B) the last sentence of section 423(c) shall apply only to the extent that the amount includible in gross income under such section exceeds so much of the basis of the option as is attributable to such share.

(d) Certain sales to comply with conflict-of-interest requirements

If—

(1) a share of stock is transferred to an eligible person (as defined in section 1043(b)(1)) pursuant to such person's exercise of an option to which this part applies, and

(2) such share is disposed of by such person pursuant to a certificate of divestiture (as defined in section 1043(b)(2)),

such disposition shall be treated as meeting the requirements of section 422(a)(1) or 423(a)(1), whichever is applicable.

(Aug. 16, 1954, ch. 736, 68A Stat. 142; Pub. L. 85-320, § 1, Feb. 11, 1958, 72 Stat. 4; Pub. L. 85-866, title I, §§ 25, 26(a), Sept. 2, 1958, 72 Stat. 1623, 1624; Pub. L. 88-272, title II, § 221(a), Feb. 26, 1964, 78 Stat. 63; Pub. L. 97-34, title II, § 251(b)(1), Aug. 13, 1981, 95 Stat. 259; Pub. L. 101-508, title XI, § 11801(c)(9)(B), Nov. 5, 1990, 104 Stat. 1388-524; Pub. L. 108-357, title II, § 251(b), title VIII, § 905(a), Oct. 22, 2004, 118 Stat. 1458, 1653.)

AMENDMENTS

2004—Subsec. (b). Pub. L. 108-357, § 251(b), inserted at end “No amount shall be required to be deducted and withheld under chapter 24 with respect to any increase in income attributable to a disposition described in the preceding sentence.”

Subsec. (d). Pub. L. 108-357, § 905(a), added subsec. (d). 1990—Subsec. (a). Pub. L. 101-508, § 11801(c)(9)(B)(i)(I), substituted “422(a) or 423(a)” for “422(a), 422A(a), 423(a), or 424(a)” in introductory provisions.

Subsec. (a)(1). Pub. L. 101-508, § 11801(c)(9)(B)(i)(II), struck out “except as provided in section 422(c)(1),” before “no income”.

Subsec. (a)(2). Pub. L. 101-508, § 11801(c)(9)(B)(i)(III), substituted “424(a)” for “425(a)”.