Section 1402(b)(2) of Pub. L. 94–455 provided that the amendment made by that section is effective with respect to taxable years beginning after Dec. 31, 1977.

EFFECTIVE DATE

Section applicable to taxable years ending after Dec. 31, 1963, see section 221(e) of Pub. L. 88–272, set out as an Effective Date of 1964 Amendment note under section 421 of this title.

REGULATIONS

Secretary of the Treasury or his delegate to issue before Feb. 1, 1988, final regulations to carry out amendments made by section 1114 of Pub. L. 99–514, see section 1141 of Pub. L. 99–514, set out as a note under section 401 of this title.

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101–508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101–508, set out as a note under section 45K of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§ 1101–1147 and 1171–1177] or title XVIII [§§ 1800–1899A] of Pub. L. 99–514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99–514, as amended, set out as a note under section 401 of this title.

## § 424. Definitions and special rules

### (a) Corporate reorganizations, liquidations, etc.

For purposes of this part, the term ''issuing or assuming a stock option in a transaction to which section 424(a) applies'' means a substitution of a new option for the old option, or an assumption of the old option, by an employer corporation, or a parent or subsidiary of such corporation, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation, if—

(1) the excess of the aggregate fair market value of the shares subject to the option immediately after the substitution or assumption over the aggregate option price of such shares is not more than the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate option price of such shares, and

(2) the new option or the assumption of the old option does not give the employee additional benefits which he did not have under the old option.

For purposes of this subsection, the parent-subsidiary relationship shall be determined at the time of any such transaction under this subsection.

### (b) Acquisition of new stock

For purposes of this part, if stock is received by an individual in a distribution to which section 305, 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies, and such distribution was made with respect to stock transferred to him upon his exercise of the option, such stock shall be considered as having been transferred to him on his exercise of such option. A similar rule shall be applied in the case of a series of such distributions.

### (c) Disposition

#### (1) In general

Except as provided in paragraphs (2), (3), and (4), for purposes of this part, the term ''disposition'' includes a sale, exchange, gift, or a transfer of legal title, but does not include—

(A) a transfer from a decedent to an estate or a transfer by request or inheritance;

(B) an exchange to which section 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies; or

(C) a mere pledge or hypothecation.

#### (2) Joint tenancy

The acquisition of a share of stock in the name of the employee and another jointly with the right of survivorship or a subsequent transfer of a share of stock into such joint ownership shall not be deemed a disposition, but a termination of such joint tenancy (except to the extent such employee acquires ownership of such stock) shall be treated as a disposition by him occurring at the time such joint tenancy is terminated.

#### (3) Special rule where incentive stock is acquired through use of other statutory option stock

##### (A) Nonrecognition sections not to apply

If—

(i) there is a transfer of statutory option stock in connection with the exercise of any incentive stock option, and

(ii) the applicable holding period requirements (under section 422(a)(1) or 423(a)(1)) are not met before such transfer,

then no section referred to in subparagraph (B) of paragraph (1) shall apply to such transfer.

##### (B) Statutory option stock

For purpose of subparagraph (A), the term ''statutory option stock'' means any stock acquired through the exercise of an incentive stock option or an option granted under an employee stock purchase plan.

#### (4) Transfers between spouses or incident to divorce

In the case of any transfer described in subsection (a) of section 1041—

(A) such transfer shall not be treated as a disposition for purposes of this part, and

(B) the same tax treatment under this part with respect to the transferred property shall apply to the transferee as would have applied to the transferor.

### (d) Attribution of stock ownership

For purposes of this part, in applying the percentage limitations of sections 422(b)(6) and 423(b)(3)—

(1) the individual with respect to whom such limitation is being determined shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters

(whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

(2) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries.

**(e) Parent corporation**

For purposes of this part, the term ''parent corporation'' means any corporation (other than the employer corporation) in an unbroken chain of corporations ending with the employer corporation if, at the time of the granting of the option, each of the corporations other than the employer corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

**(f) Subsidiary corporation**

For purposes of this part, the term ''subsidiary corporation'' means any corporation (other than the employer corporation) in an unbroken chain of corporations beginning with the employer corporation if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

**(g) Special rule for applying subsections (e) and (f)**

In applying subsections (e) and (f) for purposes of section[1] 422(a)(2) and 423(a)(2), there shall be substituted for the term ''employer corporation'' wherever it appears in subsection (e) and (f) the term ''grantor corporation'' or the term ''corporation issuing or assuming a stock option in a transaction to which section 424(a) applies'' as the case may be.

**(h) Modification, extension, or renewal of option**

**(1) In general**

For purposes of this part, if the terms of any option to purchase stock are modified, extended, or renewed, such modification, extension, or renewal shall be considered as the granting of a new option.

**(2) Special rule for section 423 options**

In the case of the transfer of stock pursuant to the exercise of an option to which section 423 applies and which has been so modified, extended, or renewed, the fair market value of such stock at the time of the granting of the option shall be considered as whichever of the following is the highest—

(A) the fair market value of such stock on the date of the original granting of the option,

(B) the fair market value of such stock on the date of the making of such modification, extension, or renewal, or

(C) the fair market value of such stock at the time of the making of any intervening modification, extension, or renewal.

**(3) Definition of modification**

The term ''modification'' means any change in the terms of the option which gives the employee additional benefits under the option, but such term shall not include a change in the terms of the option—

(A) attributable to the issuance or assumption of an option under subsection (a);

(B) to permit the option to qualify under section 423(b)(9); or

(C) in the case of an option not immediately exercisable in full, to accelerate the time at which the option may be exercised.

**(i) Stockholder approval**

For purposes of this part, if the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval.

**(j) Cross references**

**For provisions requiring the reporting of certain acts with respect to a qualified stock option, an incentive stock option, options granted under employer stock purchase plans, or a restricted stock option, see section 6039.**

(Added Pub. L. 88–272, title II, § 221(a), Feb. 26, 1964, 78 Stat. 71, § 425; amended Pub. L. 97–34, title II, § 251(b)(2)–(4), Aug. 13, 1981, 95 Stat. 259; Pub. L. 97–448, title I, § 102(j)(5), (6), Jan. 12, 1983, 96 Stat. 2373; Pub. L. 98–369, div. A, title V, § 555(b), July 18, 1984, 98 Stat. 898; Pub. L. 100–647, title I, § 1018(*l*)(1), (2), Nov. 10, 1988, 102 Stat. 3584; Pub. L. 101–239, title VII, § 7811(m)(6), Dec. 19, 1989, 103 Stat. 2412; renumbered § 424 and amended Pub. L. 101–508, title XI, § 11801(c)(9)(A)(i), (F), Nov. 5, 1990, 104 Stat. 1388–524, 1388–525; Pub. L. 104–188, title I, § 1702(h)(13), Aug. 20, 1996, 110 Stat. 1874.)

PRIOR PROVISIONS

A prior section 424, added Pub. L. 88–272, title II, § 221(a), Feb. 26, 1964, 78 Stat. 69; amended Pub. L. 94–455, title VI, § 603(c), title XIV, § 1402(b)(1)(F), (2), Oct. 4, 1976, 90 Stat. 1574, 1732, related to restricted stock options, prior to repeal by Pub. L. 101–508, title XI, § 11801(a)(21), Nov. 5, 1990, 104 Stat. 1388–521. For savings provisions, see section 11821(b) of Pub. L. 101–508, set out as a note under section 45K of this title.

AMENDMENTS

1996—Subsec. (c)(3)(B). Pub. L. 104–188 substituted ''an incentive stock option or an option granted under an employee stock purchase plan'' for ''a qualified stock option, an incentive stock option, an option granted under an employee stock purchase plan, or a restricted stock option''.

1990—Pub. L. 101–508, § 11801(c)(9)(A)(i), renumbered section 425 of this title as this section.

Subsec. (a). Pub. L. 101–508, § 11801(c)(9)(F)(i), substituted ''424(a)'' for ''425(a)''.

Subsec. (c)(3)(A)(ii). Pub. L. 101–508, § 11801(c)(9)(F)(ii), substituted ''422(a)(1) or 423(a)(1)'' for ''422(a)(1), 422A(a)(1), 423(a)(1), or 424(a)(1)''.

Subsec. (d). Pub. L. 101–508, § 11801(c)(9)(F)(iii), substituted ''422(b)(6) and 423(b)(3)'' for ''422(b)(7), 422A(b)(6), 423(b)(3), and 424(b)(3)''.

Subsec. (g). Pub. L. 101–508, § 11801(c)(9)(F)(iv), substituted ''422(a)(2) and 423(a)(2)'' for ''422(a)(2), 422A(a)(2), 423(a)(2), and 424(a)(2)'' and ''424(a)'' for ''425(a)''.

Subsec. (h)(2). Pub. L. 101–508, § 11801(c)(9)(F)(v)(I), added par. (2) and struck out former par. (2) which related to special rules for sections 423 and 424 options and to an exception that such rules would not apply with respect to a modification, extension or renewal of a restricted stock option before Jan. 1, 1964, if the ag-

[1] So in original. Probably should be ''sections''.

gregate of the monthly fair market value for 12 consecutive months before date of modification, etc., divided by 12 is an amount less than 80% of the fair market value of such stock on the date of original granting or the date of modification, etc., whichever is higher.

Subsec. (h)(3). Pub. L. 101–508, §11801(c)(9)(F)(v)(III), struck out at end ''If a restricted stock option is exercisable after the expiration of 10 years from the date such option is granted, subparagraph (B) shall not apply unless the terms of the option are also changed to make it not exercisable after the expiration of such period.''

Subsec. (h)(3)(B). Pub. L. 101–508, §11801(c)(9)(F)(v)(II), substituted ''section 423(b)(9)'' for ''sections 422(b)(6), 423(b)(9), and 424(b)(2)''.

1989—Subsec. (c)(1). Pub. L. 101–239 made technical correction to Pub. L. 100–647, §1018(*l*)(2), see 1988 Amendment note below.

1988—Subsec. (c)(1). Pub. L. 100–647, §1018(*l*)(2), as amended by Pub. L. 101–239, substituted ''paragraphs (2), (3), and (4)'' for ''paragraphs (2) and (3)''.

Subsec. (c)(4). Pub. L. 100–647, §1018(*l*)(1), added par. (4).

1984—Subsec. (h)(3)(B). Pub. L. 98–369 struck out reference to section 422A(b)(5).

1983—Subsec. (c)(1). Pub. L. 97–448, §102(j)(6)(B), substituted ''paragraphs (2) and (3)'' for ''paragraph (2)''.

Subsec. (c)(3). Pub. L. 97–448, §102(j)(6)(A), added par. (3).

Subsec. (j). Pub. L. 97–448, §102(j)(5), inserted reference to an incentive stock option.

1981—Subsec. (d). Pub. L. 97–34, §251(b)(2), inserted reference to section 422A(b)(6).

Subsec. (g). Pub. L. 97–34, §251(b)(3), inserted reference to section 422A(a)(2).

Subsec. (h)(3)(B). Pub. L. 97–34, §251(b)(4), inserted reference to section 422A(b)(5).

EFFECTIVE DATE OF 1996 AMENDMENT

Amendment by Pub. L. 104–188 effective, except as otherwise expressly provided, as if included in the provision of the Revenue Reconciliation Act of 1990, Pub. L. 101–508, title XI, to which such amendment relates, see section 1702(i) of Pub. L. 104–188, set out as a note under section 38 of this title.

EFFECTIVE DATE OF 1989 AMENDMENT

Amendment by Pub. L. 101–239 effective, except as otherwise provided, as if included in the provision of the Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100–647, to which such amendment relates, see section 7817 of Pub. L. 101–239, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100–647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99–514, to which such amendment relates, see section 1019(a) of Pub. L. 100–647, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Section 555(c)(3) of Pub. L. 98–369, as amended by Pub. L. 99–514, title XVIII, §1855(a)(4), Oct. 22, 1986, 100 Stat. 2882, provided that: ''The amendment made by subsection (b) [amending this section] shall apply with respect to modifications of options after March 20, 1984.''

EFFECTIVE DATE OF 1983 AMENDMENT

Section 102(j)(6) of Pub. L. 97–448 provided that the amendment made by that section is effective only with respect to transfers after March 15, 1982.

Amendment by section 102(j)(5) of title I of Pub. L. 97–448 effective, except as otherwise provided, as if it had been included in the provision of the Economic Recovery Tax Act of 1981, Pub. L. 97–34, to which such amendment relates, see section 109 of Pub. L. 97–448, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1981 AMENDMENT

Amendment by Pub. L. 97–34 applicable with respect to options granted on or after Jan. 1, 1976, and exercised on or after Jan. 1, 1981, or outstanding on Jan. 1, 1981, or granted on or after Jan. 1, 1976, and outstanding Aug. 13, 1981, see section 251(c) of Pub. L. 97–34, set out as an Effective Date note under section 422 of this title.

EFFECTIVE DATE

Section applicable to taxable years ending after Dec. 31, 1963, except in cases of options granted after Dec. 31, 1963, and before Jan. 1, 1965, in which case par. (1) of subsec. (h) shall not apply to any change in the terms of such option made before Jan. 1, 1965, to permit such option to qualify under pars. (3), (4), and (5) of section 422(b), see section 221(e) of Pub. L. 88–272, set out as an Effective Date of 1964 Amendment note under section 421 of this title.

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101–508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101–508, set out as a note under section 45K of this title.

## [§425. Renumbered §424]

## PART III—RULES RELATING TO MINIMUM FUNDING STANDARDS AND BENEFIT LIMITATIONS

Subpart
A. Minimum funding standards for pension plans.
B. Benefit limitations under single-employer plans.

AMENDMENTS

2006—Pub. L. 109–280, title I, §113(a)(1)(A), Aug. 17, 2006, 120 Stat. 846, substituted ''RULES RELATING TO MINIMUM FUNDING STANDARDS AND BENEFIT LIMITATIONS'' for ''MINIMUM FUNDING STANDARDS FOR SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLANS'' in part heading and added subpart analysis.

### SUBPART A—MINIMUM FUNDING STANDARDS FOR PENSION PLANS

Sec.
430. Minimum funding standards for single-employer defined benefit pension plans.
431. Minimum funding standards for multiemployer plans.[1]
432. Additional funding rules for multiemployer plans in endangered status or critical status.

AMENDMENT OF ANALYSIS

*For termination of amendment by section 221(c) of Pub. L. 109–280, see Effective and Termination Dates of 2006 Amendment note set out under section 412 of this title.*

AMENDMENTS

2006—Pub. L. 109–280, title II, §§212(d), 221(c), Aug. 17, 2006, 120 Stat. 917, 919, temporarily added item 432. See Effective and Termination Dates of 2006 Amendment note set out under section 412 of this title.

## §430. Minimum funding standards for single-employer defined benefit pension plans

### (a) Minimum required contribution

For purposes of this section and section 412(a)(2)(A), except as provided in subsection (f),

[1] Editorially supplied. Section 431 added by Pub. L. 109–280 without corresponding amendment of subpart analysis.