

Part I

Section 312.--Effect on Earnings and Profits

26 CFR 1.312-6: Earnings and profits.
(Also § 56; § 83; § 1.83-6)

Rev. Rul. 2001-1

If a corporation transfers stock upon exercise of an option that was granted in connection with the performance of services and to which § 421 of the Internal Revenue Code does not apply (a nonstatutory stock option), and the option did not have a readily ascertainable fair market value at the time of grant, the earnings and profits of the service recipient are reduced by the amount of the deduction allowed to the service recipient under §§ 83(h) and 162 by reason of such exercise. Because this item reduces earnings and profits, § 56(g)(4)(C)(i) does not disallow the deduction of the item in computing adjusted current earnings for purposes of alternative minimum tax.

The principal author of this revenue ruling is Russell P. Subin of the Office of Associate Chief Counsel (Corporate). For further information regarding this revenue ruling, contact Mr. Subin on (202) 622-7790 (not a toll-free call).