

**Revenue Ruling 2007-49,
Situation 1**

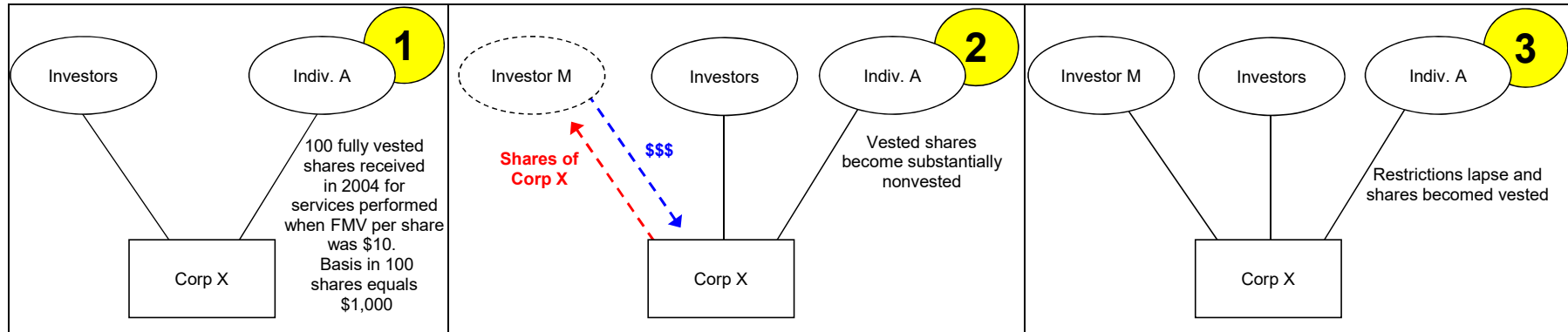
**Vested Stock to Nonvested
Stock with No Exchange**

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Initial Structure (2004)

Un-Vesting (July 9, 2007)

Vesting (July 9, 2009)



Investors form Corporation X in 2004, by contributing \$1,000 each to Corporation X in exchange for 100 shares of Corporation X stock. In exchange for Individual A's agreement to perform services for Corporation X, Corporation X issues 100 shares of its stock to A. The fair market value of the Corporation X stock on that date is \$10 per share. The shares of Corporation X stock transferred to A are "substantially vested" within the meaning of §1.83-3(b). For the 2004 taxable year, the amount included in A's income under §83(a) is \$1,000 (the fair market value of the stock (\$10 x 100 shares) less the amount paid (\$0)). A's basis in the stock is \$1,000.

In connection with its plan to start a new business venture, Corporation X seeks financing from Investor M on July 9, 2007. Investor M agrees to invest funds in Corporation X in exchange for a specified number of shares and the further requirement that A agree to subject A's shares to a restriction that will cause the stock to be "substantially nonvested" within the meaning of §1.83-3(b). Under this restriction, if the employment of A with Corporation X terminates before July 9, 2009, A must sell the shares to Corporation X in exchange for the lesser of \$150 per share (the fair market value of Corporation X stock on July 9, 2007) or the fair market value at the time of forfeiture. In addition, the shares are nontransferable before that date. A remains employed with Corporation X, and on July 9, 2009, the fair market value of Corporation X stock is \$250 per share.

In connection with the new investment, the substantially vested shares of Corporation X stock owned by A are subjected to a restriction causing them to be "substantially nonvested". Because the substantially vested shares of Corporation X stock are already owned by A for purposes of §83, there is no "transfer" under §83. Thus, the imposition of new restrictions on the substantially vested shares has no effect for purposes of §83. When the substantially nonvested Corporation X stock becomes substantially vested on July 9, 2009, A does not recognize compensation income under §83(a). A's basis in the stock continues to be \$1,000. There is not a transfer of substantially nonvested stock subject to §83 where restrictions imposed on substantially vested stock cause the substantially vested stock to become substantially nonvested.

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