

INTERNAL REVENUE SERVICE

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Dear [REDACTED]:

I am responding to your August 1, 2001 inquiry (copy enclosed) about the new "Code V" reporting requirement on the Form W-2. In response to employer concerns, we have made the new Code V reporting requirement optional for year 2002 Forms W-2 [Announcement 2001-92 (copy enclosed), scheduled for publication in the Internal Revenue Bulletin on September 24, 2001]. Our announcement asks for comments and suggestions for more efficient and cost effective ways of collecting the information that would be reported under Code V.

The new Code V reporting requirement addresses an employer's obligation to report wages from the exercise of a nonstatutory stock option, i.e., the excess, if any, of the fair market value of the stock received by an employee (or former employee) when he or she exercises a nonstatutory stock option over the amount paid for that stock. The law requires employers to include that wage amount, with any other wages paid, on Form W-2 in boxes 1, 3 (up to the social security wage base) and 5. As provided in Announcement 2000-97, 2000-48 I.R.B. 557, we required employers to report that wage amount separately in Box 12 of the Form W-2 using the new Code V, initially beginning with year 2001 Forms W-2. Subsequently, in response to employer concerns that the necessary changes to payroll and reporting systems would be difficult to institute in time for the 2001 Forms W-2, we made the Code V reporting requirement optional for 2001 Forms W-2 (Announcement 2001-7, 2001-3 I.R.B. 357). Announcement 2001-92 extends this period so the Code V reporting requirement is now optional for 2002 Forms W-2.

I appreciate and share your concerns about the impact of this new reporting requirement. Accordingly, officials of the Department of Treasury and the Office of Chief Counsel, Internal Revenue Service have conducted a series of meetings with employers, payroll processors and trade associations, to understand and address their

concerns. In addition, Announcement 2001-92 requests comments and suggestions for alternative methods of collecting the information that I hope will prove productive. When the comment period closes on December 14, 2001, we and the officials at Treasury will examine these issues and work to resolve them. I will keep you informed of developments as they occur.

Please call me if you have questions or wish to discuss this further.

Sincerely,

Charles O. Rossotti

Enclosures (2)