

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Person To Contact:
, ID No.

Telephone Number:

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CC:INTL:B06
PLR-110012-25

Date:
November 10, 2025

Legend

Taxpayer =
Company Z =
Year 1 =
Year 2 =
Year 3 =

Dear :

This responds to correspondence dated April 4, 2025, and August 29, 2025, submitted by your representatives. The correspondence requests that the Internal Revenue Service (the "Service") grant Taxpayer consent to use the methods described in Treas. Reg. § 1.482-7(d)(3)(ii)(B) and Notice 2005-99, 2005-2 C.B. 1214, for identifying, measuring, and determining the timing of Taxpayer's costs of employee stock options, restricted shares, and restricted share units (collectively referred to herein as "SBC") incurred in the intangible development activities ("IDAs") of its cost sharing arrangements (each, a "CSA"), for purposes of determining the amount Taxpayer must include as intangible development costs ("IDCs").

The consent granted by this letter is based on facts and representations submitted by Taxpayer and its representatives and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the factual information, representations, and other data may be required as part of the audit process.

FACTS

Taxpayer, a domestic corporation, was formed in Year 1. Between Years 2 and 3, Taxpayer and its foreign subsidiary, Company Z, entered into multiple agreements that they intended would qualify as CSAs within the meaning of Treas. Reg. § 1.482-7(b) (together, the "Covered CSAs").

For certain years beginning after Year 2, Taxpayer and Company Z did not include SBC costs in connection with the IDA in the Covered CSAs in its IDC pools. Taxpayer's failure to include SBC costs in its IDC pools under the Covered CSAs, contrary to the requirement in Treas. Reg. § 1.482-7(d)(1)(iii), is subject to audit by the Service.

Taxpayer filed this request for the Commissioner's consent to prospectively change its method for measuring and determining the timing of SBC that Taxpayer must include as IDCs from the default method to the method described in Treas. Reg. § 1.482-7(d)(3)(iii)(B), as extended to cover certain restricted shares and restricted share units by Notice 2005-99 (the "elective method"). Taxpayer also requested consent to prospectively change its method for identifying SBC allocable to each IDA from grant date identification as provided in Treas. Reg. § 1.482-7(d)(3)(ii) to period-by-period identification as provided in Notice 2005-99.

Taxpayer has made the following representations:

1. Taxpayer is in compliance with all record-keeping requirements of Treas. Reg. § 1.482-7.
2. The SBC that are the subject of this ruling request are publicly traded stock within the meaning of Treas. Reg. § 1.482-7(d)(3)(iii)(B)(2).
3. The SBC are not subject to market conditions or significant post-vesting restrictions within the meaning of Accounting Standards Codification, Topic 718 (ASC 718)/Statement of Financial Accounting Standards No. 123 (SFAS 123R) (predecessor of ACS 718).
4. The SBC's service and performance vesting restrictions do not have a substantial effect on the fair value of the SBC under U.S. GAAP and do not result in unreasonably long vesting periods within the meaning of ASC 718/ SFAS 123R.
5. With respect to any SBC the fair value of which is not reflected as a charge against income in audited financial statements, Taxpayer will identify such SBC for purposes of Treas. Reg. § 1.482-7 as if the fair value of such compensation were reflected as a charge against income in audited financial statements.
6. Taxpayer will treat SBC granted, but not vested, during the terms of the Covered CSAs, as vesting immediately before expiration or termination of the Covered CSA for purposes of Treas. Reg. § 1.482-7.

7. For all SBC granted on or after the first day of the taxable year beginning after the Taxpayer receives the Service's consent, Taxpayer will use the elective method and period-by-period identification.
8. If consent is granted, Taxpayer will amend its Covered CSAs to elect the elective method within 60 days of receiving such consent.
9. Taxpayer will apply the identification method consistently as required by and under the principles of Treas. Reg. § 1.482-7(d)(3)(iii)(C).
10. SBC granted prior to the term of its Covered CSAs will be excluded from the participants' IDCs.

LAW

Measurement and Timing of SBC Related to Intangible Development

Treas. Reg. § 1.482-7(d)(3)(iii)(A) provides, in relevant part, the default method for measurement and timing of SBC IDCs as follows:

the cost attributable to stock-based compensation is equal to the amount allowable to the controlled participant as a deduction for federal income tax purposes with respect to that stock-based compensation (for example, under section 83(h)) and is taken into account as an IDC under this section for the taxable year for which the deduction is allowable.

Treas. Reg. § 1.482-7(d)(3)(iii)(B)(1) provides the alternative elective method for measurement and timing of SBC IDCs with respect to options on publicly traded stock as follows:

With respect to stock-based compensation in the form of options on publicly traded stock, the controlled participants in a CSA may elect to take into account all IDCs attributable to those stock options in the same amount, and as of the same time, as the fair value of the stock options reflected as a charge against income in audited financial statements or disclosed in footnotes to such financial statements, provided that such statements are prepared in accordance with United States generally accepted accounting principles by or on behalf of the company issuing the publicly traded stock.

Treas. Reg. § 1.482-7(d)(3)(iii)(B)(4) provides for the time and manner of making the election, in relevant part, as follows:

The election described in this paragraph (d)(3)(iii)(B) is made by an explicit reference to the election in the written contract required by paragraph (k)(1) of this section or in a written amendment to the CSA entered into with the consent of the Commissioner pursuant to paragraph (d)(3)(iii)(C) of this section.

Treas. Reg. § 1.482-7(d)(3)(iii)(C) provides, in relevant part:

[I]f controlled participants already have granted stock options that have been or will be taken into account under the general rule of paragraph (d)(3)(iii)(A) of this section, then... the controlled participants may make the election described in paragraph (d)(3)(iii)(B) of this section only with the consent of the Commissioner, and the consent will apply only to stock options granted in taxable years subsequent to the taxable year in which consent is obtained.

Notice 2005-99 extended the elective method to:

[N]onvested equity shares or nonvested equity share units within the meaning of Statement of Financial Accounting Standards No. 123, "Share-Based Payment," Financial Accounting Standards Board (rev. 2004) (SFAS 123R), provided that those shares or share units: (i) constitute or are issued with respect to publicly traded stock within the meaning of § 1.482-7(d)(2)(iii)(B)(2); and (ii) are not subject to market conditions or significant post-vesting restrictions within the meaning of SFAS 123R.

We refer to such shares and share units as "restricted shares and share units." An election to apply the elective method to restricted shares or share units is generally made in the time and manner set forth in Treas. Reg. § 1.482-7(d)(3)(iii)(B)(4). However, the consent of the Commissioner is not required to elect the elective method for restricted shares and share units if the election is made by a written amendment to the CSA not later than the latest due date (with regard to extensions) of a federal income tax return of any controlled participant for the first taxable year beginning after December 8, 2005.

Identifying SBC Related to Intangible Development

Treas. Reg. § 1.482-7(d)(3)(ii) provides the rule for identification of SBC with the IDA ("grant date identification"), in relevant part, as follows:

The determination of whether stock-based compensation is directly identified with, or reasonably allocable to, the IDA is made as of the date that the stock-based compensation is granted. Accordingly, all stock-based compensation that is granted during the term of the CSA and, at date of grant, is directly identified with, or reasonably allocable to, the IDA is included as an IDC under paragraph (d)(1) of this section.

Notice 2005-99 provides that a taxpayer may choose to determine whether SBC measured by the elective method is allocable to an IDA on a period-by-period basis based on the activities of the employee recipients of the SBC in the financial reporting periods in which the SBC is taken into account for U.S. GAAP ("period-by-period identification"), rather than using grant date identification. Notice 2005-99 further provides:

Taxpayers' implementation of this identification method based on financial reporting periods must meet four requirements. First, the identification methodology must be applied consistently (under the principles of § 1.482-7(d)(2)(iii)(C)). Second, any stock-based compensation the fair value of which

is not reflected as a charge against income in audited financial statements (for example, as in the case of certain stock options the fair value of which was disclosed in footnotes prior to the effective date of SFAS 123R) must be identified for purposes of § 1.482-7 as if the fair value of such compensation were reflected as a charge against income in audited financial statements. Third, as under the grant-date identification rule, controlled participants using this identification methodology must exclude stock-based compensation granted prior to the term of the QCSA. Fourth and finally, stock-based compensation granted but not vested during the term of the QCSA must be treated as vesting immediately before expiration or termination of the QCSA for purposes of § 1.482-7. Under this final requirement, if costs attributable to stock-based compensation granted during the term of the QCSA are allocable under U.S. GAAP to reporting periods subsequent to the term of the QCSA, the determination of whether these costs must be taken into account as intangible development costs must be based on the employee's activities as of the financial reporting period during which the date of the expiration or termination of the QCSA occurs.

Generally, pursuant to Treas. Reg. § 1.482-7(d)(3)(iii)(C) and (B)(4), a change of identification method may be made only by a written amendment to the CSA entered into with the consent of the Commissioner. However, Notice 2005-99 further provides that the consent of the Commissioner is not required to change from grant date identification to period-by-period identification if such written amendment is "made no later than the latest due date (with regard to extensions) of a federal income tax return of any controlled participant for the first taxable year beginning after December 8, 2005."

In applying period-by-period identification, Notice 2005-99 provides:

[A]ctivities within the intangible development area are not necessarily coextensive with those activities classified as "research and development" for financial reporting purposes. Consequently, nothing in this notice should be interpreted as eliminating the requirement to take into account all stock-based compensation costs related to the intangible development area. Controlled participants must identify the stock-based compensation that is related to the intangible development area, notwithstanding that the activities conducted to develop intangibles covered by the QCSA may differ from the activities classified as "research and development" for U.S. GAAP purposes.

ANALYSIS

Based on the facts and representations Taxpayer has made, the Service grants Taxpayer prospective consent to change to the elective method and period-by-period identification for SBC in the Covered CSAs covered by Treas. Reg. § 1.482-7(d)(3)(iii)(B) and Notice 2005-99. This consent is effective for 60 days from the date of this letter. Therefore, Taxpayer must make the written elections in its Covered CSAs within 60 days from the date of this letter. Those elections are effective "only with respect to stock options granted during

taxable years subsequent to the taxable year in which the Commissioner's consent is obtained." See Treas. Reg. § 1.482-7(d)(3)(iii)(C).

The sole purpose of this private letter ruling is to grant consent for Taxpayer to use the elective method and period-by-period identification for purposes of including SBC as an IDC that Taxpayer must share for purposes of its Covered CSAs. Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter, including the Covered CSAs, or concerning the validity of any provisions within the Covered CSAs.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Robert Z. Kelley

Branch Chief, Branch 6

Office of Associate Chief Counsel

(International)

PLR-110012-25

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CC: