Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:INTL:B06
PLR-104378-26
Date:
May 28, 2026

Legend

Taxpayer =
Company A =
Company B =
Company C =
Company D =
Company E =
Company F =
Company G =
Company X =
Date 1 =
Month 1 =
Company 1 =
Company 2 =

Dear :

This responds to a correspondence dated February 17, 2026, 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)(iii)(B) and Notice 2005-99, 2005-2 C.B. 1214, for measuring and timing employee stock options, restricted shares, and restricted share units (collectively referred to herein as "SBC") incurred in the intangible development activities ("IDAs") for purposes of determining the amount Taxpayer must include in its cost sharing arrangements, CSA 1 and CSA 2 (each, a "CSA"), as intangible development costs ("IDCs"). Such consent would apply only to SBC granted in taxable years subsequent to the taxable year in which consent is obtained.

The ruling contained in this letter is based upon information and representations submitted by Taxpayer and its representative and accompanied by penalties of perjury statements executed by the appropriate parties. This office has not verified any of the material submitted in support of the request for ruling. Verification of the factual information, representations, and other data may be required as part of the audit process.

FACTS

Taxpayer, a public domestic corporation, is a participant to two CSAs – CSA 1 and CSA 2 (the “Covered CSAs”).

CSA 1 was formed by Company 1 prior to Taxpayer’s acquisition of Company 1 on or about Date 1. Since that acquisition, CSA 1 was subsequently amended and restated several times. As of the date of this request, Company A, Company B, Company C, Company D and Company E are participants to CSA 1.

CSA 2 was formed by Company 2 prior to Taxpayer’s acquisition of Company 2 on or about Month 1. Since that acquisition, CSA 2 was subsequently amended and restated several times. As of the date of this request, Company F, Company G, Company B, Company C, Company D, and Company E are participants to CSA 2.

The Covered CSAs use the method provided in Treas. Reg. § 1.482-7(d)(3)(iii)(A) (the “default method”) for measurement and timing of SBC included in IDCs. The participants to the Covered CSAs have consistently applied the default method. The method provided in Treas. Reg. § 1.482-7(d)(3)(ii) (“grant date identification”) is used consistently across all of Taxpayer’s CSAs for identification of SBC as related to IDA that Taxpayer must include in the pool of IDCs.

<u>Request</u>

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 has made the following representations, as stated in its submissions:

1. With regard to the Covered CSAs, Taxpayer will remain in compliance with all record keeping requirements of the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations thereunder, including Treas. Reg. § 1.482-7(k)(2)(ii). Upon request, Taxpayer will timely provide to the Commissioner records kept pursuant to such requirements.

2. The SBC that is the subject of this ruling request is restricted stock units and options with respect to Taxpayer’s publicly traded stock within the meaning of Treas. Reg. § 1.482-7(d)(3)(iii)(B)(2).

3. Under the terms of the SBC plan, the service and performance vesting restrictions of the SBC to which this election will apply do not have a substantial effect on the fair value of the SBC under GAAP and do not result in unreasonably long vesting periods within the meaning of Financial Accounting Standards Codification Topic No.

718, “Compensation-Stock Based Compensation,” Financial Accounting Standards Board (rev. 2016) (“ASC 718”).

4. SBC granted prior to the term of the CSA is excluded from IDCs.
5. For all SBC granted before the first day of the first taxable year following receipt of Service’s consent (“Legacy SBC”), all controlled participants to the Covered CSAs will continue to use the method of measurement and timing provided in Treas. Reg. § 1.482-7(d)(3)(iii)(A) until all Legacy SBC has been vested, exercised, or lapsed as appropriate.
6. All controlled participants to the Covered CSAs will continue to apply the grant date identification method consistently as provided under the principles of Treas. Reg. § 1.482-7(d)(3)(iii)(C).
7. For all SBC issued with respect to publicly traded stock within the meaning of Treas. Reg. § 1.482-7(d)(3)(iii)(B)(2) granted on or after the first day of the first taxable year following receipt of Service’s consent that satisfy the following conditions, all controlled participants to the Covered CSAs that will use the method of measurement and timing provided in Treas. Reg. § 1.482-7(d)(3)(iii)(B)(1) and as expanded by Notice 2005-99:
    a. Are stock options; non-vested equity shares or non-vested equity share units within the meaning of Statement of Financial Accounting Standards No. 123, “Share-Based Payment,” Financial Accounting Standards Board (rev. 2004) (“FAS 123R”); or Share-Based Payments within the meaning of FAS 123R’s successor, ASC 718; and
    b. Are not subject to market conditions or significant post-vesting restrictions within the meaning of ASC 718.

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.

ANALYSIS

Based on the facts and representations Taxpayer has made, the Service grants Taxpayer and the other controlled participants prospective consent to change to the elective method for SBC covered by Treas. Reg. § 1.482-7(d)(3)(iii)(B) and Notice 2005-99, effective for grants made in taxable years subsequent to the taxable year in which consent is obtained. This consent is effective for 60 days from the date of this letter. Therefore, if Taxpayer chooses to adopt the elective method, it must make the written election within 60 days from the date of this letter to apply the elective method.

The sole purpose of this private letter ruling is to grant consent for Taxpayer and the other controlled participants to use the elective method for purposes of including SBC as an IDC that must be shared under the 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 representative.

Sincerely,

Robert Z. Kelley

Branch Chief, Branch 6

Office of Associate Chief Counsel

(International)

CC: