

**Proposed Amendments to the Regulations**

Accordingly, 26 CFR parts 1 and 14a are proposed to be amended as follows:

**PART 1—INCOME TAXES**

**Paragraph 1.** The authority citation for part 1 continues to read in part as follows:

**Authority:** 26 U.S.C. 7805 \* \* \*

**§§ 1.421–1 through 1.421–6 [Removed]**

**Par. 2.** Sections 1.421–1 through 1.421–6 are removed.

**Par. 3.** Section 1.421–7 is redesignated as § 1.421–1 and is amended as follows:

1. In paragraph (a)(1), first sentence, the language “sections 421 through 425” is removed and “§§ 1.421–1 through 1.424–1” is added in its place.

2. In paragraph (a)(1), first sentence, the language “includes” is removed, and “means” is added in its place.

3. In paragraph (a)(1), removing the second sentence.

4. Removing the last sentence of paragraph (a)(1) and adding two sentences in its place.

5. Revising paragraph (a)(3).

6. Revising paragraphs (b)(1) and (b)(2).

7. In paragraph (b)(3)(i), third sentence, removing the language “1.425–1” and inserting “1.424–1” in its place.

8. In the list below, for each section indicated in the left column, remove the language in the middle column and add the language in the right column:

Newly designated section	Remove	Add
1.421–1(b)(3)(ii), <i>Example 1</i> , first, second, third and fourth sentences .....	S–1	X
1.421–1(b)(3)(ii), <i>Example 1</i> , second sentence .....	1964	2004
1.421–1(b)(3)(ii), <i>Example 1</i> , third and fourth sentences .....	1965	2005
1.421–1(b)(3)(ii), <i>Example 2</i> , first and second sentences .....	1964	2004
1.421–1(b)(3)(ii), <i>Example 2</i> , first, third, and fourth sentences .....	S–1	X
1.421–1(b)(3)(ii), <i>Example 2</i> , third and fourth sentences .....	1965	2005

9. Revising the last sentence of paragraph (b)(3)(ii), *Example 1*.

10. Removing the last sentence of paragraph (b)(3)(ii), *Example 2* and adding two sentences in its place.

11. Removing the first sentence of paragraph (c)(1) and adding two new sentences in its place.

12. In paragraph (c)(2), second sentence, the language “425” is removed and “424” is added in its place.

13. In paragraph (c)(3), second and last sentences, the language “1964” is

removed and “2004” is added in its place.

14. In paragraph (c)(3), second sentence, the language “1965” is removed and “2005” is added in its place.

15. Revising paragraphs (d) and (e).

16. In paragraph (f), in the first sentence, the language “sections 421 through 425” is removed and “this section and §§ 1.421–2 through 1.424–1” is added in its place.

17. Revising the last sentence of paragraph (f).

18. In paragraph (g), first sentence, the language “sections 421 through 425” is removed and “this section and §§ 1.421–2 through 1.424–1” is added in its place.

19. Adding a new third sentence to paragraph (g).

20. Revising the first, second, and third sentences of paragraph (h)(1).

21. Revising paragraph (h)(2).

22. In paragraph (h)(3), first sentence, the language “425” is removed and “424” is added in its place.

23. In paragraph (h)(3), last sentence, the language “or assuming” is removed and “the option or substituting or assuming the option” is added in its place.

24. In the list below, for each section indicated in the left column, remove the language in the middle column and add the language in the right column:

Newly designated section	Remove	Add
1.421–1(h)(4), <i>Example 1</i> , first sentence.	1964 .....	2004.
1.421–1(h)(4), <i>Example 1</i> , second and last sentences.	1965 .....	2005.
1.421–1(h)(4), <i>Example 2</i> , first sentence.	425 .....	424.
1.421–1(h)(4), <i>Example 2</i> , first sentence.	issuing .....	substituting.
1.424–1(h)(4), <i>Example 2</i> , last sentence.	1965 .....	2005.
1.421–1(h)(4), <i>Example 2</i> , last sentence.	for A is then employed by a corporation which issued an option under section 425(a).	to the transfer of the M stock because, at all times during the period beginning with the date of grant of the X option and ending with the date of exercise of the M option, A was an employee of the corporation granting the option or substituting or assuming the option under § 1.424–1(a).
1.421–1(h)(4), <i>Example 3</i> , second sentence.	1964 .....	2004.
1.421–1(h)(4), <i>Example 3</i> , third, fourth, and fifth sentences.	1965 .....	2005.
1.421–1(h)(4), <i>Example 4</i> , first sentence.	425(a) .....	424(a).
1.421–1(h)(4), <i>Example 5</i> , first sentence.	qualified stock .....	statutory.
1.421–1(h)(4), <i>Example 6</i> , first sentence.	an employment contract with M which provides that upon the termination of any military duty E may be required to serve, E will be entitled to reemployment with M or a parent or subsidiary of M.	a right to reemployment with M or a related corporation on the termination of any military duty E may be required to serve.
1.421–1(h)(4), <i>Example 6</i> , third sentence.	of M .....	of M or a related corporation.