

Eligible Recipients of Incentive Stock Options

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Granting incentive stock options qualifying under Section 422 of the Internal Revenue Code (**ISOs**) can often result in more favorable tax treatment to the recipient, provided that the recipient holds the option and the optioned shares for the required period of time. When granting ISOs, it is important to make sure that the plan document and administrative procedures only permit such options to be granted to eligible recipients. For purposes of ISOs, eligible recipients are limited to employees of a granting corporation (or its subsidiaries that are corporations). Independent contractors, non-employee directors, and employees of entities that are not corporations for tax purposes are ineligible to receive ISOs.