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Tax Valuation E-Flash

Revenue Procedure 2002-13

The Internal Revenue Service has issued guidance for valuing stock options, including a safe harbor for valuing compensatory stock options under the golden parachute rules.

This Revenue Procedure is effective April 26, 2002, and generally provides that a taxpayer may value a compensatory stock option using any valuation method that is consistent with generally accepted accounting principles, including Statement of Financial Accounting Standards No. 123, and that takes into account the factors in Proposed Regulation 1.280G-1, Q&A 13.

The safe harbor valuation method is based on the Black-Scholes model, which considers: (1) the volatility of the underlying stock, (2) the exercise price of the option, (3) the value of the stock at the time of the valuation, and (4) the term of the option on the valuation date. The safe harbor value of the option is calculated using a valuation factor determined from a table in the Appendix. "Other relevant factors, including risk-free rate of interest and assumptions related to dividend yields are included in the table in the Appendix."

The full text of the Revenue Procedure is available from the link below.

[Click Here for Full Text of Cases](#)