

Q-5: Does section 4977 apply to all calendar years following the calendar year in which the election is made?

A-5: Yes, unless the employer revokes the election.

Q-6: When is a revocation effective?

A-6: A revocation is effective with respect to the calendar year following the calendar year in which it is filed.

Q-7: If an employer does not make a timely section 4977 election with respect to 1985, will the employer be entitled to make an election with respect to any subsequent year?

A-7: No.

Q-8: If an employer revokes a section 4977 election, is the employer entitled to elect the application of section 4977 for subsequent years?

A-8: No.

[T.D. 8004, 50 FR 758, Jan. 7, 1985]

**§ 54.4978-1T Questions and answers relating to the tax on certain dispositions by employee stock ownership plans and certain cooperatives (temporary).**

Q-1: What does section 4978 provide?

A-1: Section 4978 imposes a tax (as determined under section 4978(b) and Q&A-2 of this section) on the amount realized on the disposition of any qualified securities, if:

(a) An employee stock ownership plan or eligible worker-owned cooperative acquires any qualified securities in a sale to which section 1042 applies;

(b) Such plan or cooperative disposes of any qualified securities during the 3-year period after the date on which any qualified securities were acquired in the sale to which section 1042 applies; and

(c) Either (1) the percentage of the total outstanding shares of the class of employer securities of which the disposed qualified securities are a part held by such plan or cooperative after such disposition is less than the percentage of the total outstanding shares of such class of employer securities held immediately after the sale to which section 1042 applies, or (2) the value of the employer securities held by such plan or cooperative immediately after such disposition is less than 30 percent of the total value of all employer securities outstanding at that time. For purposes of this section,

the following terms have the same meanings given to such terms by the identified provisions: "employee stock ownership plan" (section 4975(e)(7)); "qualified securities" (section 1042(b)(1)); "eligible worker-owned cooperative" (section 1042(b)(2)); "employer securities" (section 409(l)). For purposes of determining what constitutes a disposition to which section 4978 applies, see Q&A-3 of this section.

Q-2: What is the amount of tax imposed under section 4978?

A-2: Section 4978 imposes a tax of 10 percent of the amount realized on the disposition of qualified securities. The amount realized that is subject to tax under section 4978 shall not exceed that portion of the amount realized that is allocable to qualified securities acquired within the 3-year period prior to the date of disposition and to which section 1042 applied ("restricted qualified securities"). In determining the amount realized (except as otherwise provided in Q&A-3 of this section), any disposition of employer securities with respect to which the condition contained in provision (c) of Q&A-1 is met shall be treated, first, as a disposition of restricted qualified securities (on a first in, first out basis) and, thereafter, as a disposition of any other employer securities. Thus, for example, if a plan disposes of more employer securities than the number of restricted qualified securities held by the plan at that time and immediately after such disposition the value of the employer securities held by the plan is less than 30 percent of the total value of all outstanding employer securities, the portion of the total amount realized that is allocable to restricted qualified securities subject to tax under section 4978 is determined by multiplying the total amount realized on the disposition by a fraction, the numerator of which is the total value of restricted qualified securities included in the disposition and the denominator of which is the total value of employer securities in the disposition.

Q-3: What constitutes a "disposition" under section 4978?

A-3: (a) Under section 4978, the term "disposition" includes any sale, exchange, or distribution. However, in the case of any exchange of qualified

securities for stock of another corporation in any reorganization described in section 368(a)(1), such exchange shall not be treated as a disposition for purposes of section 4978.

(b) Section 4978 shall not apply to any disposition of qualified securities which is made by reason of:

- (1) The death of the employee;
- (2) The retirement of the employee after the employee has attained 59½ years of age;
- (3) The disability of the employee (within the meaning of section 72(m)(5)); or
- (4) The separation of the employee from service for any period which results in a 1-year break in service (within the meaning of section 411(a)(6)(A)).

Any disposition of employer securities within this paragraph and any disposition of employer securities with respect to which the condition contained in provision (c) of Q&A-1 of this section is not met shall be treated, first, as a disposition of securities that are not restricted qualified securities and, thereafter, as a disposition of restricted qualified securities (on a first-in, first-out basis).

(c) If restricted qualified securities held by an employee stock ownership plan or eligible worker-owned cooperative no longer meet the definition of qualified securities ("old restricted qualified securities") as a result of a transaction changing (1) the status of a corporation as an employer, or as a member of a controlled group of corporations including the employer, or (2) the existence of employer securities of the type described in section 409(l)(1), the disposition of such securities shall not be treated as a disposition of restricted qualified securities to which the tax under section 4978 is imposed if, within 90 days after such disposition, securities meeting the requirements of section 409(l) ("new restricted qualified securities") that are of equal value to the old restricted qualified securities (at the time of the disposition of the old restricted qualified securities) are substituted for such old restricted qualified securities. However, for purposes of determining the tax imposed under section 4978, old restricted qualified securities shall not be treated as if they retained their sta-

tus as restricted qualified securities and new restricted qualified securities derived from the disposition of old restricted qualified securities pursuant to the preceding sentence shall be treated as restricted qualified securities for the remaining portion of the period during which the disposition of the old restricted qualified securities would have been subject to tax under section 4978.

Q-4: To whom does the tax under section 4978 apply?

A-4: The tax under section 4978 is imposed on the domestic corporation (or corporations) or the eligible worker-owned cooperative that made the written statement of consent as described in section 1042(a)(2)(B) and Q&A-2 of §1.1042-1T with respect to the disposition of the restricted qualified securities.

Q-5: When does section 4978, as enacted by the Tax Reform Act of 1984, become effective?

A-5: Section 4978 applies to the disposition of qualified securities acquired in a sale to which section 1042 applies. See Q&A-6 of §1.1042-1T for the effective date of section 1042.

[T.D. 8073, 51 FR 4336, Feb. 4, 1986]

**§ 54.4979-0 Excise tax on certain excess contributions and excess aggregate contributions; table of contents.**

This section contains the captions that appear in § 54.4979.

*§ 54.4979-1 Excise tax on certain excess contributions and excess aggregate contributions.*

- (a) In general.
  - (1) General rule.
  - (2) Liability for tax.
  - (3) Due date and form for payment of tax.
  - (4) Special rule for simplified employee pensions.
- (b) Definitions.
  - (1) Excess aggregate contributions.
  - (2) Excess contributions.
  - (3) Plan.
- (c) No tax when excess distributed within 2½ months of close of year or additional employer contributions made.
  - (1) General rule.
  - (2) Tax treatment of distributions.
  - (3) Income.
  - (4) Example.
- (d) Effective date.
  - (1) General rule.
  - (2) Section 403(b) annuity contracts.