

(1) Subparagraph (B) of section 1371(g)(3) (defining qualified subchapter S trust) is amended to read as follows: 26 USC 1371.

“(B) all of the income (within the meaning of section 643(b)) of which is distributed (or required to be distributed) currently to 1 individual who is a citizen or resident of the United States, and”.

(2) Section 678 is amended by adding at the end thereof the following new subsection: 26 USC 678.

“(e) CROSS REFERENCE.—

“For provision under which beneficiary of trust is treated as owner of the portion of the trust which consists of stock in an electing small business corporation, see section 1361(d).”

(j) AMENDMENTS RELATED TO SECTION 251.—

95 Stat. 256.

(1) Paragraph (8) of section 422A(b) (defining incentive stock option) is amended by striking out “granted options” and inserting in lieu thereof “granted incentive stock options”. 26 USC 422A.

(2) Paragraph (1) of section 422A(c) (relating to exercise of option where price is less than value of stock) is amended—

(A) by adding at the end thereof the following new sentence: “To the extent provided in regulations by the Secretary, a similar rule shall apply for purposes of paragraph (8) of subsection (b) and paragraph (4) of this subsection.”, and

(B) by striking out the paragraph heading and inserting in lieu thereof the following:

“(1) GOOD FAITH EFFORTS TO VALUE STOCK.—”

(3) Subparagraph (A) of section 422A(c)(2) (relating to certain disqualified dispositions where amount realized is less than value at exercise) is amended by striking out “the 2-year period” and inserting in lieu thereof “either of the periods”.

(4) Clause (ii) of section 422A(c)(4)(A) (relating to carryover of unused limit) is amended by striking out “granted options” and inserting in lieu thereof “granted incentive stock options”.

(5) Subsection (j) of section 425 (relating to cross references) is amended by inserting “an incentive stock option,” after “qualified stock option,”. 26 USC 425.

(6) Effective only with respect to transfers after March 15, 1982—

(A) subsection (c) of section 425 (defining disposition) is amended by adding at the end thereof the following new paragraph:

“(3) SPECIAL RULE WHERE INCENTIVE STOCK IS ACQUIRED THROUGH USE OF OTHER STATUTORY OPTION STOCK.—

“(A) NONRECOGNITION SECTIONS NOT TO APPLY.—If—

“(i) there is a transfer of statutory option stock in connection with the exercise of any incentive stock option, and

“(ii) the applicable holding period requirements (under section 422(a)(1), 422A(a)(1), 423(a)(1), or 424(a)(1)) are not met before such transfer,

then no section referred to in subparagraph (B) of paragraph (1) shall apply to such transfer.

“(B) STATUTORY OPTION STOCK.—For purpose of subparagraph (A), the term ‘statutory option stock’ means any stock acquired through the exercise of a qualified stock option, an incentive stock option, an option granted under an employee stock purchase plan, or a restricted stock option.”, and