

Tax Hotline

July 02, 2001

INDIAN GOVERNMENT ISSUES DRAFT ESOP GUIDELINES

In accordance with the powers given under section 17 of the Income Tax Act, 1961, the Central Government has issued draft guidelines in respect of Employees Stock Options ("ESOs"). These guidelines would cover all types of ESOs and the rules would be finalized after discussions.

The exercise price should not be less than the face value of shares. Companies would be required to file detailed particulars of the ESO plan in prescribed format with the Chief Commissioner of Income-tax (CCIT) within six months of issuance of these guidelines. Companies will have the discretion to determine the lock-in period, conditions of transfer, pricing formula, eligibility of employees and the manner of obtaining approval from shareholders. The scheme would be required to give all these details. In case of unlisted companies, CCIT should approve the basis of valuation of shares issued.

Our next "Legal Update" will cover the details of these guidelines upon finalization.

Source: *The Economic Times*, July 2, 2001; *Business Standard*, June 30, 2001

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