

Sec. 12-711(b)-16. Incentive stock options

(a) Connecticut adjusted gross income derived from or connected with sources within this state includes, to the extent provided in this section, income from the disposition of stock that was purchased by an employee under an incentive stock option if, during the period beginning with the first day of the employee's taxable year during which such option was granted and ending with the last day of the employee's taxable year during which such option was exercised, the employee was performing services within Connecticut as an employee.

(b) If, during the period described in subsection (a) of this section, the employee's services were performed wholly within Connecticut, the amount by which the fair market value of the stock, at the time such option was exercised, exceeds the option price is compensation that is derived from or connected with sources within this state, provided, if the fair market value of the stock, at the time such option was exercised, exceeds the amount realized on the disposition of the stock, then only the amount of income that is recognized for federal income tax purposes shall be considered compensation that is derived from or connected with sources within this state.

(c) If, during the period described in subsection (a) of this section, the employee's services were performed partly within and partly without Connecticut, the portion of the amount by which the fair market value of the stock, at the time such option was exercised, exceeds the option price, that is derived from or connected with sources within this state is in the same ratio that, under § 12-711(c)-5 of this Part, the total compensation received from the employer during such period for services performed in this state bears to the total compensation received from the employer during such period for services performed both within and without this state.

(d) Whether or not the holding periods under section 422(a)(1) and (2) of the Internal Revenue Code are met, the difference between the amount realized on the disposition of the stock and the fair market value of the stock, at the time such option was exercised, is income or loss that is not derived from or connected with sources within this state.

(e) For purposes of this section—

(1) "disposition" means disposition, as defined in section 424(c) of the Internal Revenue Code;

(2) "stock" means stock, as defined in 26 C.F.R. § 1.421-7(d);

(3) "option price" means option price, as defined in 26 C.F.R. § 1.421-7(e); and

(4) "incentive stock option" means incentive stock option, as defined in section 422(b) of the Internal Revenue Code.

(f) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)