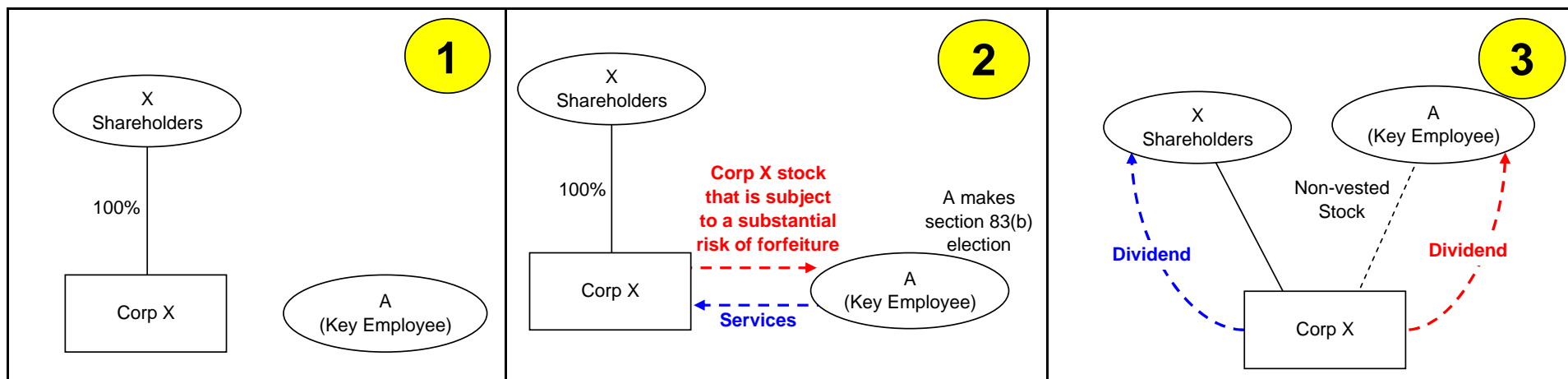


**Dividend on Non-vested Stock
With 83(b) Election Treat as a Dividend**

Initial Structure

Restricted Stock Issuance

Dividends



Corp X established a restricted stock plan for the benefit of certain key employees in connection with services rendered to the corporation. The terms of the plan are such that at the time the corporation's stock is transferred to the employee the stock is subject to a substantial risk of forfeiture within the meaning of section 83(c)(1) and is not transferable within the meaning of section 83(c)(2). All dividends earned on the restricted stock are paid to the employee. As a condition of receiving the stock, the employee is required to make the election provided under section 83(b) to include in gross income, for the taxable year the stock is transferred, the excess of the fair market value of the stock at the time of transfer over the amount paid for the stock. Corp X transferred X's restricted stock pursuant to the plan to A, an employee of X. A made a proper election under section 83(b). A's stock under the plan earned \$30 of dividends and such amount was paid to A in 1982.

The regulations under section 83(b) treat stock transferred to an employee in connection with the performance of services as substantially vested when the employee makes the election. The employee is considered to be the owner of the stock. Accordingly, a dividend paid to the employee under these circumstances is not additional compensation to the employee but retains its character as a dividend in the hands of the employee. A will include the \$30 received in gross income in 1982 as dividend income.