

106TH CONGRESS
2D SESSION

H. R. 4972

To amend the Internal Revenue Code of 1986 to encourage the granting of employee stock options.

IN THE HOUSE OF REPRESENTATIVES

JULY 26, 2000

Mr. HOUGHTON (for himself and Mr. MATSUI) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to encourage the granting of employee stock options.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Universal Employee
5 Stock Option Act of 2000”.

6 **SEC. 2. INCENTIVES TO GRANT EMPLOYEE STOCK OP-**
7 **TIONS.**

8 (a) IN GENERAL.—Section 423 of the Internal Rev-
9 enue Code of 1986 (relating to employee stock purchase

1 plans) is amended by adding at the end the following new
2 subsection:

3 “(d) SPECIAL INCENTIVES WITH RESPECT TO EM-
4 PLOYEE STOCK PURCHASE PLANS WHICH MEET CER-
5 TAIN ADDITIONAL REQUIREMENTS.—

6 “(1) IN GENERAL.—If—

7 “(A) section 421(a) would (but for this
8 subsection) apply with respect to the transfer of
9 stock to an individual by reason of this section,
10 and

11 “(B) the requirements of paragraph (2)
12 are met with respect to such transfer,
13 the rules of paragraph (3) shall apply in lieu of the
14 rules of section 421(a).

15 “(2) REQUIREMENTS.—A transfer of stock to
16 an individual meets the requirements of this para-
17 graph if—

18 “(A) the price paid by the individual for
19 the stock under the option is paid only through
20 payroll deductions in substantially equal
21 amounts over a period of not less than 12
22 months and not more than 60 months,

23 “(B) such payroll deductions are held in a
24 trust described in paragraph (6),

1 “(C) the price of the stock acquired under
2 the option is not less than the fair market value
3 of the stock at the time the option is granted,

4 “(D) ownership of the stock is transferred
5 to the individual at the end of the payroll de-
6 duction period (or, if earlier, the date that the
7 price of the stock under the option is fully
8 paid),

9 “(E) the individual’s election to purchase
10 such stock pursuant to the option is made dur-
11 ing the 30-day period beginning on the earliest
12 date that the individual could have made the
13 election to acquire stock pursuant to such op-
14 tion, and

15 “(F) the stock acquired by the individual
16 pursuant to the option is held by the trust de-
17 scribed in paragraph (5) until the individual
18 elects to dispose of such stock.

19 “(3) SPECIAL TAX TREATMENT.—

20 “(A) TREATMENT OF PAYROLL DEDUC-
21 TIONS.—With respect to the payroll deductions
22 referred to in paragraph (2)(A)—

23 “(i) the gross income of the individual
24 shall not include an amount equal to such
25 deductions,

1 “(ii) for purposes of subtitle C, the in-
2 dividual’s remuneration for employment
3 shall not include an amount equal to such
4 deductions, and

5 “(iii) the deduction otherwise allow-
6 able under section 162 for remuneration
7 paid to such individual shall be reduced by
8 an amount equal to such deductions.

9 The aggregate amount to which the preceding
10 sentence applies for any taxable year of an indi-
11 vidual shall not exceed the limitation under sec-
12 tion 402(g)(1) for such taxable year.

13 “(B) TREATMENT WHEN SHARE TRANS-
14 FERRED TO INDIVIDUAL.—

15 “(i) EMPLOYEE.—No amount shall be
16 includible in the gross income of an indi-
17 vidual (or treated as remuneration for pur-
18 poses of subtitle C) by reason of the trans-
19 fer of ownership of stock acquired pursu-
20 ant to an option to which this subsection
21 applies.

22 “(ii) EMPLOYER.—There shall be al-
23 lowed as a deduction under section 162 to
24 the person whose deduction was reduced
25 under subparagraph (A)(iii) (for the tax-

1 able year in which such transfer of owner-
2 ship occurs) an amount equal to the fair
3 market value of the stock at the time of
4 such transfer.

5 “(C) TREATMENT WHEN SHARE DISPOSED
6 OF.—At the time the trust disposes of the
7 stock, so much of the gain as does not exceed
8 the deduction allowed under subparagraph
9 (B)(ii) shall be treated as ordinary income.

10 “(5) SPECIAL RULES.—

11 “(A) DETERMINATION OF OPTION
12 PRICE.—For purposes of paragraph (2), an op-
13 tion to acquire stock shall be treated as being
14 granted on the earliest date that the individual
15 could have made the election to acquire stock
16 pursuant to such option.

17 “(B) RETURN OF PAYROLL DEDUC-
18 TIONS.—Nothing in this subsection shall pre-
19 vent the return of an individual’s payroll deduc-
20 tions to the individual if the individual elects
21 not to use the deducted amounts to acquire the
22 stock. The amount so returned shall be included
23 in the gross income of such individual for the
24 taxable year in which paid to the individual and

1 shall be treated for purposes of subtitle C as re-
2 munerated from employment.

3 “(C) TERMINATION OF EMPLOYMENT.—If
4 an individual terminates employment with the
5 person who granted the option to acquire stock,
6 paragraph (2)(A) shall not apply to amounts
7 paid within 3 months after such termination to
8 the extent such amounts do not exceed the
9 amount payable under options granted before
10 the date of such termination. In the case of an
11 individual who is disabled, the preceding sen-
12 tence shall be applied by substituting ‘1 year’
13 for ‘3 months’.

14 “(5) TRUST HOLDING PAYROLL DEDUCTIONS.—
15 A trust is described in this paragraph if—

16 “(A) the trust is created or organized in
17 the United States exclusively for the purposes
18 of holding payroll deductions pursuant to this
19 subsection and stock acquired with such payroll
20 deductions,

21 “(B) a separate account is maintained for
22 each individual, and

23 “(C) any earnings on payroll deductions of
24 an individual are credited to the account of
25 such individual.”

1 (b) EXEMPTION FROM TAX FOR TRUST HOLDING
2 PAYROLL DEDUCTIONS, ETC.—Subsection (a) of section
3 501 of such Code is amended by striking “or section
4 401(a)” and inserting “, section 401(a), or section
5 423(d)(5)”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to options granted after the date
8 of the enactment of this Act.

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