

107TH CONGRESS
1ST SESSION

H. R. 2695

To amend the Internal Revenue Code of 1986 to clarify the treatment of incentive stock options and employee stock purchase plans.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 1, 2001

Mr. HOUGHTON 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 clarify the treatment of incentive stock options and employee stock purchase plans.

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. EXCLUSION OF INCENTIVE STOCK OPTIONS**
4 **AND EMPLOYEE STOCK PURCHASE PLAN**
5 **STOCK OPTIONS FROM WAGES.**

6 (a) EXCLUSION FROM EMPLOYMENT TAXES.—

7 (1) SOCIAL SECURITY TAXES.—

8 (A) Section 3121(a) of the Internal Rev-
9 enue Code of 1986 (relating to definition of
10 wages) is amended by striking “or” at the end

1 of paragraph (20), by striking the period at the
2 end of paragraph (21) and inserting “; or”, and
3 by inserting after paragraph (21) the following
4 new paragraph:

5 “(22) remuneration on account of—

6 “(A) a transfer of a share of stock to any
7 individual pursuant to an exercise of an incen-
8 tive stock option (as defined in section 422(b))
9 or under an employee stock purchase plan (as
10 defined in section 423(b)), or

11 “(B) any disposition by the individual of
12 such stock.”.

13 (B) Section 209(a) of the Social Security
14 Act is amended by striking “or” at the end of
15 paragraph (17), by striking the period at the
16 end of paragraph (18) and inserting “; or”, and
17 by inserting after paragraph (18) the following
18 new paragraph:

19 “(19) Remuneration on account of—

20 “(A) a transfer of a share of stock to any
21 individual pursuant to an exercise of an incen-
22 tive stock option (as defined in section 422(b)
23 of the Internal Revenue Code of 1986) or under
24 an employee stock purchase plan (as defined in
25 section 423(b) of such Code), or

1 “(B) any disposition by the individual of
2 such stock.”.

3 (2) RAILROAD RETIREMENT TAXES.—Sub-
4 section (e) of section 3231 of such Code is amended
5 by adding at the end the following new paragraph:

6 “(11) QUALIFIED STOCK OPTIONS.—The term
7 ‘compensation’ shall not include any remuneration
8 on account of—

9 “(A) a transfer of a share of stock to any
10 individual pursuant to an exercise of an incen-
11 tive stock option (as defined in section 422(b))
12 or under an employee stock purchase plan (as
13 defined in section 423(b)), or

14 “(B) any disposition by the individual of
15 such stock.”.

16 (3) UNEMPLOYMENT TAXES.—Section 3306(b)
17 of such Code (relating to definition of wages) is
18 amended by striking “or” at the end of paragraph
19 (16), by striking the period at the end of paragraph
20 (17) and inserting “; or”, and by inserting after
21 paragraph (17) the following new paragraph:

22 “(18) remuneration on account of—

23 “(A) a transfer of a share of stock to any
24 individual pursuant to an exercise of an incen-
25 tive stock option (as defined in section 422(b))

1 or under an employee stock purchase plan (as
2 defined in section 423(b)), or

3 “(B) any disposition by the individual of
4 such stock.”.

5 (b) WAGE WITHHOLDING NOT REQUIRED ON DIS-
6 QUALIFYING DISPOSITIONS.—Section 421(b) of such Code
7 (relating to effect of disqualifying dispositions) is amended
8 by adding at the end the following new sentence: “No
9 amount shall be required to be deducted and withheld
10 under chapter 24 with respect to any increase in income
11 attributable to a disposition described in the preceding
12 sentence.”.

13 (c) WAGE WITHHOLDING NOT REQUIRED ON COM-
14 PENSATION WHERE OPTION PRICE IS BETWEEN 85 PER-
15 CENT AND 100 PERCENT OF VALUE OF STOCK.—Section
16 423(c) of such Code (relating to special rule where option
17 price is between 85 percent and 100 percent of value of
18 stock) is amended by adding at the end the following new
19 sentence: “No amount shall be required to be deducted
20 and withheld under chapter 24 with respect to any amount
21 treated as compensation under this subsection.”.

22 (d) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to stock acquired pursuant to op-
24 tions exercised after the date of the enactment of this Act.

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