



TECHNET
THE VOICE OF THE
INNOVATION ECONOMY

September 22, 2016

TechNet Applauds U.S. House of Representatives for Approving Legislation to Encourage Employee Stock Options

Washington, D.C. — TechNet, the national, bipartisan network of innovation economy CEOs and senior executives, today applauded the U.S. House of Representatives for approving legislation that would make it easier for startups and businesses to give employees an ownership stake in their company's success by awarding stock options.

The *Empowering Employees through Stock Ownership Act* (H.R. 5719) was introduced by Reps. Erik Paulsen (R-MN) and Joseph Crowley (D-NY) in order to remove burdensome tax implications that have made exercising stock options impractical for many employees of startups and non-public firms. Stock options are an important tool for rewarding employees and increasing their compensation, and this legislation would give employees new flexibility in handling their tax obligations.

“This legislation will accelerate startup growth by allowing small companies to properly reward employees for their hard work,” said Linda Moore, TechNet president and CEO. **“TechNet applauds the House for approving the *Empowering Employees through Stock Ownership Act*. This will help ensure that our nation continues to have a robust startup economy. We urge the Senate to approve the legislation as well.”**

The *Empowering Employees through Stock Ownership Act* will:

- Reduce the barrier to exercise stock options: The legislation extends the time period in which employees are required to pay tax upon exercise of stock options or Restricted Stock Units (RSUs) that are settled for stock up to seven years. The amount of tax the employee can elect to defer is calculated in the same manner as under current law: the excess of the fair market value of the stock, over the amount the employee pays for the stock.
- Promote broad-based employee ownership: To qualify for the deferral of income tax, the company is required to grant options to 80 percent or more of its employees on an annual basis; must offer employees stock options on similar

terms; and the stock cannot be traded on an established market. The legislation is not intended to benefit the most compensated employees or the largest owners of a company. Individuals who own one percent or more of the company and those who control the company, such as the Chief Operating Officer, the Chief Financial Officer, and the four most highly compensated officers, are not eligible.

- Require employees to be fully informed: There may be instances where the stock price of the company declines after the employee elects to defer income tax liability. It is critical that employers provide employees with information, through a written notice, on the tax consequences of this election, and failure of the company to provide a notice to an employee will result in a penalty.
- Use existing administrative tax rules and provide worker flexibility: Similar to other tax elections in the stock options space, the employer will be required to report the future tax liability on the employee's Form W-2. Once the employee has the cash to pay the tax, a tax deferral is no longer permitted. In other words, if stock of the company becomes readily tradable on an established market, or the employee decides to sell or transfer part or all shares to another individual before the seven-year time period ends, the employee will have to pay the tax. The employee can also decide to revoke the deferral and pay their income tax at any point.

A copy of the bill text is available [here](#).

About TechNet

TechNet is the national, bipartisan network of technology CEOs and senior executives that promotes the growth of the innovation economy by advocating a targeted policy agenda at the federal and 50-state level. TechNet's diverse membership includes dynamic startups to the most iconic companies on the planet and represents more than two million employees in the fields of information technology, e-commerce, advanced energy, biotechnology, venture capital, and finance. TechNet has offices in Washington, D.C., Silicon Valley, San Francisco, Sacramento, Austin, Boston, Seattle, Albany, and Tallahassee.

###