Congress of the United States
Washington, DC 20515

September 22, 2016

Empowering Employees through Stock Ownership Act (HR 5719)

Dear Democratic Colleague:

Earlier this week, we offered an amendment at the Rules Committee to the *Empowering Employees through Stock Ownership Act* (HR 5719), to ensure the bill would be fully offset and would not add to the deficit. Unfortunately, the Rules Committee refused to allow a vote on our amendment, even at a time when the majority is demanding offsets for health emergencies like Zika and the humanitarian crisis in Flint.

For that reason, while we are both strong supporters of the underlying bill, we will oppose passage of HR 5719 when the full House votes later today.

Fortunately, earlier this week, this bill's companion in the Senate was recently passed out of the Finance Committee with an offset and with bipartisan support.

Below is some background on the bill itself. Please let us know if you would like any additional materials on the underlying bill or the proposed offset amendment. Also, please do not hesitate to contact either of us, or have your staff contact Kevin Casey (Crowley) at 5-1851, with any other questions or concerns you may have with this bill. Thank you.

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Today, the House will consider the *Empowering Employees through Stock Ownership Act* (HR 5719), which would allow workers at privately-held firms and start-ups to defer the income taxes on their stock options for up to 7 years or until a “triggering event” occurs that allows the stock to be sold, whichever is sooner.

The proposed legislation is needed to address real world situations where employees of privately-held firms, who are provided the opportunity to become part owners of the company they helped build through the granting of stock options and shares, can’t exercise that stock without paying taxes on them as "income," even though the options cannot be readily sold.

Businesses often offer stock to employees to share the value of their companies, recruit and maintain talented workers, and offer compensation in addition to salaries. Stock also provides smaller start-up companies the ability to compete with larger, more established companies in attracting top talent. This competition and the formation of new start-up companies throughout the country is a plus for job creation and overall economic growth.

Currently, when an employee exercises their right to obtain stock in their company, it is a taxable event and taxed in the same way as other forms of compensation.

In publicly traded companies, when employees exercise their stock options or shares vest, they can sell a portion of their shares on the public market to help cover the cost of their taxes.

Unfortunately, for employees of private companies and start-ups, there is no market for employees to sell their shares to cover their tax liability. This tax burden quite often prevents employees at privately held companies from exercising their stock. They lose out on the ability to gain wealth, and ownership, as their company potentially succeeds.

This bill defers the taxes owed for employees of privately held companies for 7 years or until a "triggering event" occurs that allows the stock to be sold. Examples of triggering events are stock buy-backs, acquisitions, or the company going public.

Additionally, to help expand the opportunity for more workers to become owners, the bill mandates that deferral of the taxes is only granted if a company provides equity participation for at least 80% of the full time employees, beyond those who own 1% or more of the company's stock, the CFO, CEO and the 4 highest paid officers.

Because the bill does provide some tax relief to workers, the Joint Committee on Tax states that it would cost the Treasury $1 billion over the next 10 years. However, our effort to ensure the bill is fully offset and would not add to the deficit was blocked by the Rules Committee.

Sincerely,

Joe Crowley
Member of Congress

Anna G. Eshoo
Member of Congress