114TH CONGRESS  
2D SESSION  
H. R. 4577

To amend the Internal Revenue Code of 1986 to exclude from gross income compensation received by employees consisting of qualified distributions of employer stock.

IN THE HOUSE OF REPRESENTATIVES  
FEBRUARY 12, 2016  
Mr. ROHRABACHER (for himself and Mr. PETERSON) 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 exclude from gross income compensation received by employees consisting of qualified distributions of employer stock.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Expanding Employee Ownership Act of 2016”.

SEC. 2. QUALIFIED STOCK DISTRIBUTIONS TO EMPLOYEES.

(a) In General.—Part II of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 83 the following new section:
“SEC. 83A. QUALIFIED STOCK DISTRIBUTIONS TO EMPLOYEES.

“(a) In General.—If an employee elects to have this section apply with respect to any qualified employee stock distribution, gross income shall not include—

“(1) so many shares of employer securities received by an individual in a qualified employee stock distribution of such individual’s employer as does not exceed the maximum stock amount,

“(2) any gain on employer securities excluded from gross income under paragraph (1) if such employer security is held by such individual for not less than 10 years, and

“(3) in the case of any qualified disposition of an employer security which is described in paragraph (2) (and which meets the holding requirement of such paragraph), any gain on so much stock acquired during the 60-day period beginning on the date of such disposition as does not exceed the fair market value of the employer security so disposed (determined as of the time of disposition).

“(b) Definitions.—For purposes of this section—

“(1) Employer securities.—The term ‘employer securities’ has the meaning given such term in section 409(l), except that paragraph (3) thereof shall be applied by substituting ‘the date of the
qualified employee stock distribution’ for ‘the date of
the acquisition by the tax credit employee stock own-
ership plan’. Such term shall not include any stock
unless such stock has voting rights. Any employer
securities which are held in trust or cease to be held
directly by the employee shall cease to be treated as
employer securities and shall be treated for purposes
of subsection (e) as having been disposed of by the
employee.

“(2) QUALIFIED EMPLOYEE STOCK DISTRIBUTION.—The term ‘qualified employee stock distribu-
tion’ means a distribution by an employer of em-
ployer securities to employees (determined as of the
date of the distribution) of such employer as com-
pensation for services, except that there may be dis-
regarded any employee who (as of the date of the
distribution)—

“(A) has not attained age 18,
“(B) has not completed 12 months of serv-

ice with the employer,
“(C) is a nonresident alien,
“(D) is a citizen or resident of a foreign
jurisdiction (including any individual who is
also a citizen or resident of the United States)
if the distribution to such individual is prohibited under the laws of such foreign jurisdiction,

“(E) holds 10 percent or more of the outstanding stock of the employer, or

“(F) is an employee whose compensation from the employer is subject to disclosure under rules promulgated by the Securities and Exchange Commission.

“(3) MAXIMUM STOCK AMOUNT.—The term ‘maximum stock amount’ means, with respect to any distribution, the lowest number of employer securities received by any employee of the employer in such distribution.

“(4) QUALIFIED DISPOSITION.—

“(A) IN GENERAL.—The term ‘qualified disposition’ means, with respect to the disposition of any employer security described in paragraph (2) of subsection (a) (and which meets the holding requirement of such paragraph) during any calendar year, the disposition of a number of shares of such security not in excess of the excess of—

“(i) the applicable percentage of the aggregate number of shares of such secu-
rity received during the calendar year that
such security was received, over

“(ii) the aggregate number of shares
of such security taken into account under
this subparagraph for all prior calendar
years.

“(B) Applicable Percentage.—For
purposes of clause (i), the applicable percentage
is, with respect to any calendar year following
the calendar year in which such security was re-
ceived, the percentage determined in accordance
with the following table:

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<thead>
<tr>
<th>In the case of:</th>
<th>The applicable percentage is:</th>
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<tbody>
<tr>
<td>The first through tenth such calendar years</td>
<td>0 percent</td>
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<tr>
<td>The eleventh such calendar year</td>
<td>10 percent</td>
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<td>The twelfth such calendar year</td>
<td>20 percent</td>
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<td>The thirteenth such calendar year</td>
<td>30 percent</td>
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<td>The fourteenth such calendar year</td>
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<td>80 percent</td>
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<td>The nineteenth such calendar year</td>
<td>90 percent</td>
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<tr>
<td>Any subsequent calendar year</td>
<td>100 percent</td>
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</table>

“(c) Employment Taxes.—Amounts excluded from
gross income under subsection (a)(1) shall not be taken
into account as wages for purposes of chapters 21, 22,
23, 23A, and 24.

“(d) Coordination With Section 83.—In the case
of a transfer of employer securities to which subsection
(a)(1) applies—
“(1) IN GENERAL.—Section 83 shall not apply.

“(2) DEDUCTION BY EMPLOYER.—There shall be allowed as a deduction under section 162, to the person for whom were performed the services in connection with which such securities were transferred, an amount equal to the fair market value of such securities (determined as of the time of such transfer). Such deduction shall be allowed for the taxable year which includes the date of such transfer.

“(e) RECAPTURE IF STOCK DISPOSED DURING REQUIRED HOLDING PERIOD.—If an amount is excluded from gross income under subsection (a)(1) with respect to any employer security and the individual disposes of such security at any time during the 5-year period beginning on the date that such individual received such security—

“(1) the gross income of such individual for the taxable year which includes the date of such disposition shall be increased by the amount so excluded, and

“(2) the tax imposed by this chapter for such taxable year shall be increased by the sum of the amounts of tax which would have been imposed under subchapters A and B of chapters 21 and 22
if subsection (c) had not applied with respect to such
amount.

For purposes of this title and the Social Security Act, any
increase in tax under paragraph (2) shall be treated as
imposed under the provision of chapter 21 or 22 with re-
spect to which such increase relates.

“(f) BASIS OF STOCK EQUAL TO FAIR MARKET
VALUE AT TIME OF TRANSFER.—Notwithstanding section
1012, in the case of a transfer of employer securities to
which subsection (a)(1) applies, the basis of such securi-
ties in the hands of the transferee immediately after such
transfer shall be equal to the fair market value of such
securities (determined as of the time of such transfer).

“(g) AGGREGATION RULE.—Two or more persons
who are treated as a single employer under subsection (b),
(c), (m), or (o) of section 414 shall be treated as a single
employer for purposes of this section.

“(h) ELECTION.—The election under subsection (a)
shall be made at such time and in such manner as the
Secretary may prescribe. Once made, such election may
be revoked only with the consent of the Secretary.

“(i) REGULATIONS.—The Secretary shall issue such
regulations or other guidance as may be necessary or ap-
propriate to carry out this section, including regulations
or other guidance which—
“(1) provide for the application of this section to stock options,

“(2) provide mechanisms by which to satisfy the requirements of this section in the event that an employee is inadvertently excluded from a distribution of employer securities (including a case where a service provider is treated as not an employee by the employer, but is determined to be an employee), and

“(3) require such reporting under sections 6045 and 6051 with respect to transfers of stock to which subsection (a) applies as the Secretary determines to be necessary or appropriate to carry out this section.”.

(b) Clerical Amendment.—The table of sections for such part is amended by inserting after the item relating to section 83 the following new item:

“Sec. 83A. Qualified stock distributions to employees.”.

(c) Effective Date.—The amendments made by this section shall apply to stock received by employees after the date of the enactment of this Act.