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| |  |  | | --- | --- | | **For Immediate Release:** | **Contact:** [Neal A. Patel](mailto:neal_patel@heller.senate.gov) | | July 12, 2016 | 202-224-6244 |   **Senators Heller, Warner Introduce Legislation to Encourage Stock Options for Employees of Startups and Privately-Held Firms**  Gives more employees a tool to invest in their companies and share  in the profits, Helps startups and businesses reward and support employees  **(Washington, DC)** – Today, U.S.Senators Dean Heller (R-NV) and Mark R. Warner (D-VA), members of the Senate Finance Committee, introduced bipartisan 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. Identical legislation was also introduced in the U.S. House of Representatives by Rep. Erik Paulsen (R-MN).  Stock options, which are a right to purchase shares of a company at a future time at a fixed price, are an important tool for investing in and rewarding employees and increasing their compensation, but the tax implications often make this impractical for many employees of non-public firms. The ***Empowering Employees through Stock Ownership Act*** *(EESO)*, S. 3152, promotes broad-based employee ownership by reducing this barrier to participation, giving employees new flexibility in handling their tax obligations for up to seven years after exercising their stock options. In order to be eligible, stock options must be extended to 80 percent of the workforce, and majority owners, corporate officers, and the highest-paid executives will not be eligible for the seven-year tax deferment.  “Employee ownership fuels entrepreneurship and provides economic growth across the Silver State. As the footprint of the startup community in Nevada continues to expand, I believe it’s important to give employees the flexibility to pay their taxes on their stock options. This legislation will allow for companies, like startups and other small businesses, to offer competitive compensation packages to attract and retain key talent. When workers feel valued and appreciated, the sky’s the limit for both the employee and employer,” **said Senator Dean Heller.**  “When employee ownership is spread across a growing business, it has a huge impact on workplace culture, productivity, and wealth creation. It also is a key tool for startups, allowing cash-poor innovators to recruit top talent,” **Senator Mark Warner said.**“Extending employee stock programs to a broader universe of workers will strengthen business growth and create new economic opportunities, especially for rank-and-file workers.”  “Startup employees feel empowered to be builders when they have ownership, and they should be rewarded for their hard work and dedication to growing the company when cash is scarce,” **said Brandon Pollak, Director of Global Affairs and part of the founding team of 1776**. “This bill will benefit startups as they seek to attract and retain talent with strong stock ownership plans.”  Under current law, employees are required to pay taxes when they exercise their options or when their Restricted Stock Units (RSUs) vest. In other words, to access their employee ownership stake, employees are required to pay taxes on the excess of the fair market value of the stock – the difference between the amount paid and the fair market value – and the employer receives a tax deduction on the date the employee exercises the option.  For companies that are publicly traded, employees can sell all or a portion of their shares on the public market to pay for their taxes, but in the case of privately held companies, there is generally not a market for employees to liquidate shares to cover their tax liability, and as a result, many employees are unable to exercise their stock options, missing out on the opportunity to gain wealth as their company succeeds.  **Background:**  The***Empowering Employees through Stock Ownership Act:***   * Reduces 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 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.      * Promotes 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 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 1 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.      * Requires 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.      * Uses 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 stock, 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 tax. The employee can also decide to revoke the deferral and pay his or her income tax at any point. ​   A copy of the bill text is available [here](https://www.scribd.com/document/318090928/Empowering-Employees-Through-Stock-Ownership-Act).    ###  [cid:image005.png@01D15EA3.CEBDCB00](http://www.facebook.com/pages/US-Senator-Dean-Heller/325751330177)[cid:image006.png@01D15EA3.CEBDCB00](http://twitter.com/SenDeanHeller)[cid:image007.png@01D15EA3.CEBDCB00](http://www.youtube.com/user/SenDeanHeller) |