

105TH CONGRESS
1ST SESSION

H. R. 2788

To amend the Internal Revenue Code of 1986 to promote the grant of incentive stock options to nonhighly compensated employees.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 31, 1997

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 promote the grant of incentive stock options to nonhighly compensated employees.

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. SPECIAL RULES FOR INCENTIVE STOCK OP-**
4 **TIONS FOR NONHIGHLY COMPENSATED EM-**
5 **PLOYEES.**

6 (a) IN GENERAL.—Section 422 of the Internal Reve-
7 nue Code of 1986 (relating to incentive stock options) is
8 amended by adding at the end the following new sub-
9 section:

1 “(e) SPECIAL RULES FOR INCENTIVE STOCK OP-
2 TIONS FOR NONHIGHLY COMPENSATED EMPLOYEES.—

3 “(1) IN GENERAL.—In the case of an incentive
4 stock option granted to an individual who, at the
5 time the option is granted, is not a highly com-
6 pensated employee of any corporation referred to in
7 subsection (a)(2), the requirements of paragraph (1)
8 of subsection (a) shall be treated as met with respect
9 to the transfer of stock to such individual pursuant
10 to the exercise of such option if either of the require-
11 ments of such paragraph are met.

12 “(2) RULES TO APPLY TO EMPLOYEES OF CER-
13 TAIN EMPLOYERS.—

14 “(A) IN GENERAL.—Paragraph (1) shall
15 also apply to options granted by a qualified em-
16 ployer to highly compensated employees.

17 “(B) QUALIFIED EMPLOYER.—For pur-
18 poses of subparagraph (A), an employer is a
19 qualified employer with respect to options
20 granted during a calendar year if at least 50
21 percent of the aggregate fair market value of
22 stock with respect to which incentive stock op-
23 tions (determined without regard to subsection
24 (d)) are granted during such calendar year by
25 such employer (and its parent and subsidiary

1 corporations) are granted to individuals who are
2 not highly compensated employees.

3 “(3) INCREASE IN ANNUAL LIMITATION.—The
4 limitation under subsection (d) shall be increased by
5 the lesser of \$100,000 or the fair market value of
6 the options to which paragraph (1) applies.

7 “(4) HIGHLY COMPENSATED EMPLOYEES.—For
8 purposes of this subsection, the term ‘highly com-
9 pensated employee’ has the meaning given to such
10 term by section 414(q).”

11 (b) EXCEPTION FROM MINIMUM TAX PREF-
12 ERENCE.—Paragraph (3) of section 56(b) of such Code
13 (relating to adjustments applicable to individuals) is
14 amended by adding at the end the following new sentence:
15 “The preceding provisions of this paragraph shall not
16 apply to any transfer of stock pursuant to an option to
17 which subparagraphs (A) and (B) of section 422(e)(1)
18 apply.”

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to options granted after the date
21 of the enactment of this Act.

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