

108TH CONGRESS  
1ST SESSION

# H. R. 286

To amend the Internal Revenue Code of 1986 to clarify the treatment of incentive stock options and employee stock purchase plans.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 8, 2003

Mr. HOUGHTON (for himself, Mr. BARTLETT of Maryland, Mr. COX, Mr. CRANE, Mr. TOM DAVIS of Virginia, Mr. DOOLEY of California, Ms. DUNN, Mr. ENGLISH, Mr. FILNER, Mr. FOLEY, Mr. GILLMOR, Mr. HAYWORTH, Mr. HERGER, Mr. HONDA, Mrs. JOHNSON of Connecticut, Mr. SAM JOHNSON of Texas, Ms. LOFGREN, Ms. PRYCE of Ohio, Mr. QUINN, Mr. RAMSTAD, and Mr. SESSIONS) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to clarify the treatment of incentive stock options and employee stock purchase plans.

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. EXCLUSION OF INCENTIVE STOCK OPTIONS**

4 **AND EMPLOYEE STOCK PURCHASE PLAN**

5 **STOCK OPTIONS FROM WAGES.**

6 (a) EXCLUSION FROM EMPLOYMENT TAXES.—

7 (1) SOCIAL SECURITY TAXES.—

1 (A) Section 3121(a) of the Internal Rev-  
2 enue Code of 1986 (relating to definition of  
3 wages) is amended by striking “or” at the end  
4 of paragraph (20), by striking the period at the  
5 end of paragraph (21) and inserting “; or”, and  
6 by inserting after paragraph (21) the following  
7 new paragraph:

8 “(22) remuneration on account of—

9 “(A) a transfer of a share of stock to any  
10 individual pursuant to an exercise of an incen-  
11 tive stock option (as defined in section 422(b))  
12 or under an employee stock purchase plan (as  
13 defined in section 423(b)), or

14 “(B) any disposition by the individual of  
15 such stock.”.

16 (B) Section 209(a) of the Social Security  
17 Act is amended by striking “or” at the end of  
18 paragraph (17), by striking the period at the  
19 end of paragraph (18) and inserting “; or”, and  
20 by inserting after paragraph (18) the following  
21 new paragraph:

22 “(19) Remuneration on account of—

23 “(A) a transfer of a share of stock to any  
24 individual pursuant to an exercise of an incen-  
25 tive stock option (as defined in section 422(b))

1 of the Internal Revenue Code of 1986) or under  
2 an employee stock purchase plan (as defined in  
3 section 423(b) of such Code), or

4 “(B) any disposition by the individual of  
5 such stock.”.

6 (2) RAILROAD RETIREMENT TAXES.—Sub-  
7 section (e) of section 3231 of such Code is amended  
8 by adding at the end the following new paragraph:

9 “(11) QUALIFIED STOCK OPTIONS.—The term  
10 ‘compensation’ shall not include any remuneration  
11 on account of—

12 “(A) a transfer of a share of stock to any  
13 individual pursuant to an exercise of an incen-  
14 tive stock option (as defined in section 422(b))  
15 or under an employee stock purchase plan (as  
16 defined in section 423(b)), or

17 “(B) any disposition by the individual of  
18 such stock.”.

19 (3) UNEMPLOYMENT TAXES.—Section 3306(b)  
20 of such Code (relating to definition of wages) is  
21 amended by striking “or” at the end of paragraph  
22 (16), by striking the period at the end of paragraph  
23 (17) and inserting “; or”, and by inserting after  
24 paragraph (17) the following new paragraph:

25 “(18) remuneration on account of—

1           “(A) a transfer of a share of stock to any  
2 individual pursuant to an exercise of an incen-  
3 tive stock option (as defined in section 422(b))  
4 or under an employee stock purchase plan (as  
5 defined in section 423(b)), or

6           “(B) any disposition by the individual of  
7 such stock.”.

8           (b) WAGE WITHHOLDING NOT REQUIRED ON DIS-  
9 QUALIFYING DISPOSITIONS.—Section 421(b) of such Code  
10 (relating to effect of disqualifying dispositions) is amended  
11 by adding at the end the following new sentence: “No  
12 amount shall be required to be deducted and withheld  
13 under chapter 24 with respect to any increase in income  
14 attributable to a disposition described in the preceding  
15 sentence.”.

16           (c) WAGE WITHHOLDING NOT REQUIRED ON COM-  
17 PENSATION WHERE OPTION PRICE IS BETWEEN 85 PER-  
18 CENT AND 100 PERCENT OF VALUE OF STOCK.—Section  
19 423(c) of such Code (relating to special rule where option  
20 price is between 85 percent and 100 percent of value of  
21 stock) is amended by adding at the end the following new  
22 sentence: “No amount shall be required to be deducted  
23 and withheld under chapter 24 with respect to any amount  
24 treated as compensation under this subsection.”.

1           (d) **EFFECTIVE DATE.**—The amendments made by  
2 this section shall apply to stock acquired pursuant to op-  
3 tions exercised after the date of the enactment of this Act.

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