CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 16, 2016

H.R. 5719
Empowering Employees through Stock Ownership Act

As ordered reported by the House Committee on Ways and Means on September 14, 2016

H.R. 5719 would amend the Internal Revenue Code to allow certain employees to defer for up to seven years the recognition of income on compensation paid to them in the form of certain company restricted stock units or stock options. Under current law, employees must generally include such compensation in taxable income for both income and payroll tax purposes, in the case of stock grants, when they become substantially vested or, in the case of nonqualified stock options, when they exercise the option. At the same time, the business can take an equal deduction for compensation paid.

Under H.R. 5719, a company's employees would be eligible for the deferral, for income tax purposes only, if the company provides the stock compensation to at least 80 percent of its workforce and the stock of the company has not been traded on a securities market in any preceding year. The income deferral period would end upon any of several events, such as the sale of the stock or the stock becoming tradable on securities markets, and the period would be limited to seven years after the employee exercises an option and is vested in the stock, or becomes vested in the restricted unit. The income deferral would not be available to certain individuals, including highly-paid employees and top management. In addition, as under current law, businesses would take a deduction at the same time as the employee would recognize the income. The changes under H.R. 5719 would be effective for options exercised and restricted stock units settled after December 31, 2016.

The staff of the Joint Committee on Taxation (JCT) estimates that the legislation would reduce revenues by about $1.0 billion over the 2016-2026 period.

The Statutory Pay-As-You Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting revenues and direct spending. The net changes in revenues that are subject to those pay-as-you-go procedures are shown in the following table. Enacting the bill would not affect direct spending.

CBO Estimate of Pay-As-You-Go Effects for H.R. 5719, as ordered reported by the House Committee on Ways and Means on September 14, 2016.

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Effects	0	116	160	166	159	142	115	81	48	32	13	744	1,031

Source: Staff of the Joint Committee on Taxation.

Note: Components do not add to totals due to rounding.

JCT and CBO estimate that enacting the bill would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2027 and would not increase on-budget deficits by more than $5 billion in any of those periods.

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Peter Huether. The estimate was approved by John McClelland, Assistant Director for Tax Analysis.