



The ESOP Association

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House Ways and Means Committee Proposes Cutback in Benefits of Synthetic Equity in S ESOP Companies

On October 25, 2007, Congressman Charles Rangel [D-NY], Chair of the House Ways and Means Committee, introduced the "Tax Reduction and Reform Act of 2007," which includes a provision that impacts an S ESOP corporation's ability to compensate any employee with what is referred to in the S ESOP community as synthetic equity, as defined in IRC Section 409(p)(6)(C). [Specific citation to Chair Rangel's proposal is H.R. 3970, Section 3701, page 122 of proposed legislation.]

The precise language of Section 3701, H.R. 3970 makes it clear that a heavy tax burden would be placed on a person receiving stock options, warrants, restricted stocks, deferred issuance stocks, or similar interest or right to acquire or receive stock in the S corporation. The definition used in Section 3701 includes stock appreciation rights, phantom stock units, or a similar right to a future cash payment based on the value of the ESOP sponsor's stock or appreciation in value of any such stocks.

There is strong opposition to the overall legislation from Congressional Republicans and the White House to Chair Rangel's proposal. But to be noted, it was the Treasury Department that in August of 2007 that recommended that Congress and the White House consider eliminating all ESOP tax benefits, in order to decrease the Federal Corporate Income Tax Rate.

The Board of Directors of The ESOP Association, of which all corporate members are S ESOP companies, has reviewed the proposal and by consensus wants the ESOP community to urge Congress to reject Section 3701 of H.R. 3970 and its negative impact on S ESOPs. The proposal will supposedly raise \$600 million over ten years, or a mere \$60 million per year, in order to help pay for a near \$400 billion reduction in corporate income taxes due to a proposed rate cut in the C corporation current rate of 35% to 30.5%.

The ESOP Association will work with its ESOP friends on the Committee, both Democrat and Republican, to be sure misguided proposals that hurt ESOP companies are not part of some false concept that ESOPs do not help U.S. companies be more competitive.

For more information, please call The ESOP Association at 202/293-2971 or email media@esopassociation.org.

Did you know...

- There are approximately 11,000 ESOPs in place in the U.S., covering 10 million employees (10% of the private sector workforce)
- An estimated 6,000 of the 11,000 companies have ESOPs that are large enough to be a major factor in the corporation's strategy and culture.
- A majority of ESOP companies have other retirement plans, such as defined benefit pension plans or 401(k) plans, to supplement their ESOP.

Source: *The ESOP Association*,
www.esopassociation.org

On the calendar...

January 24-26, 2008

[Employee Owner Retreat](#)
Hilton Phoenix East/Mesa
Mesa, AZ

Contact: 866/366-3832 or email
meetings@esopassociation.org

January 31- February 2, 2008

[Employee Owner Retreat](#)
Doubletree Oceanfront
Cocoa Beach, FL

Contact: 866/366-3832 or email
meetings@esopassociation.org

For a complete list of conferences and events, please visit The ESOP Association's website at www.esopassociation.org.