

SECOND IN A SERIES OF HEARINGS ON
THE ALTERNATIVE MINIMUM TAX

HEARING
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS

FIRST SESSION

MARCH 22, 2007

Serial No. 110-28

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

47-007

WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON WAYS AND MEANS

CHARLES B. RANGEL, New York, *Chairman*

FORTNEY PETE STARK, California	JIM MCCRERY, Louisiana
SANDER M. LEVIN, Michigan	WALLY HERGER, California
JIM MCDERMOTT, Washington	DAVE CAMP, Michigan
JOHN LEWIS, Georgia	JIM RAMSTAD, Minnesota
RICHARD E. NEAL, Massachusetts	SAM JOHNSON, Texas
MICHAEL R. MCNULTY, New York	PHIL ENGLISH, Pennsylvania
JOHN S. TANNER, Tennessee	JERRY WELLER, Illinois
XAVIER BECERRA, California	KENNY HULSHOF, Missouri
LLOYD DOGGETT, Texas	RON LEWIS, Kentucky
EARL POMEROY, North Dakota	KEVIN BRADY, Texas
STEPHANIE TUBBS JONES, Ohio	THOMAS M. REYNOLDS, New York
MIKE THOMPSON, California	PAUL RYAN, Wisconsin
JOHN B. LARSON, Connecticut	ERIC CANTOR, Virginia
RAHM EMANUEL, Illinois	JOHN LINDER, Georgia
EARL BLUMENAUER, Oregon	DEVIN NUNES, California
RON KIND, Wisconsin	PAT TIBERI, Ohio
BILL PASCARELL JR., New Jersey	JON PORTER, Nevada
SHELLEY BERKLEY, Nevada	
JOSEPH CROWLEY, New York	
CHRIS VAN HOLLEN, Maryland	
KENDRICK MEEK, Florida	
ALLYSON Y. SCHWARTZ, Pennsylvania	
ARTUR DAVIS, Alabama	

JANICE MAYS, *Chief Counsel and Staff Director*

BRETT LOPER, *Minority Staff Director*

SUBCOMMITTEE ON SELECT REVENUE MEASURES

RICHARD E. NEAL, Massachusetts, *Chairman*

LLOYD DOGGETT, Texas	PHIL ENGLISH, Pennsylvania
MIKE THOMPSON, California	THOMAS M. REYNOLDS, New York
JOHN B. LARSON, Connecticut	ERIC CANTOR, Virginia
ALLYSON Y. SCHWARTZ, Pennsylvania	JOHN LINDER, Georgia
JIM MCDERMOTT, Washington	PAUL RYAN, Wisconsin
RAHM EMANUEL, Illinois	
EARL BLUMENAUER, Oregon	

Pursuant to clause 2(e)(4) of Rule XI of the Rules of the House, public hearing records of the Committee on Ways and Means are also published in electronic form. **The printed hearing record remains the official version.** Because electronic submissions are used to prepare both printed and electronic versions of the hearing record, the process of converting between various electronic formats may introduce unintentional errors or omissions. Such occurrences are inherent in the current publication process and should diminish as the process is further refined.

CONTENTS

Advisories of March 15 and March 19, 2007, announcing the hearing	Page 2
---	-----------

WITNESSES

Margaret L.N. Rauh, Individual Taxpayer, accompanied by Jay Primack, Moriarty & Primack, P.C., Certified Public Accountants, Springfield, Massachusetts	10
Joel Campbell, Individual Taxpayer, accompanied by Art Auerbach, Goodman and Company, LLP, Certified Public Accountants, McLean, Virginia	7
Joseph W. Walloch, President and CEO, Walloch & Associates, Redlands, California, on behalf of the American Institute of Certified Public Accountants	15
David A. Lifson, President-Elect, New York State Society of Certified Public Accountants, New York, New York	21
Michael K. Day, Sr., President, Baltimore County Professional Fire Fighters Association, Cockeysville, Maryland, on behalf of the International Association of Fire Fighters	11
Jon A. Nixon, CPA, Partner, Katzman Weinstein and Co., LLP, Bethpage, New York	26

SUBMISSIONS FOR THE RECORD

Angela Hartley, letter	46
Brian Hanrahan, letter	47
Brian Lent, letter	48
Coalition for Tax Fairness, statement	49
Cong Trinh, letter	50
Craig Chesser, New York, NY, statement	51
Dan Taylor, statement	52
David W. Moyle, statement	54
Deborah Watson, letter	55
Eric Delore, letter	56
Gerald Marx, letter	57
Hans Lachman, letter	59
Heather Youskauskas, letter	60
Herman Bluestein, letter	63
Jeff Damir, letter	64
Jeffery Chou, statement	65
Kelly Baird, statement	65
Kevin R. Frank, statement	66
Larisa and John Bickel, statement	67
Leroy Lacy, statement	67
Lisa Szturma, letter	68
Mark Flatman, letter	70
Michael & Jennifer Carrobis, statement	71
Michael F. Abidi, letter	71
Michael G. Parkin, letter	73
Michael M. Marino, letter	74
Michael Powers, letter	75
Michael Sullivan, letter	76
Mike Brown, statement	77
Mike Wertheim, statement	78
Miller family, statement	79
National Potato Council, letter	82
Nina Doherty, letter	83
Paul M. Sander, letter	85
Rich Verjinski, letter	86

	Page
Robert M. Korte, letter	87
Ron Speltz, June, Alison, Sydney, Angela and Sawyer, letter	88
Sally Foster, letter	89
Sheila Weaver, letter	91
Todd Keen, statement	92
Tom Schrepel, letter	93
William David Keschull, statement	94

**SECOND IN A SERIES OF HEARINGS ON
THE ALTERNATIVE MINIMUM TAX**

THURSDAY, MARCH 22, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SELECT REVENUE MEASURES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:03 a.m., in room 1100, Longworth House Office Building, Hon. Richard E. Neal (Chairman of the Subcommittee), presiding.
[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SELECT REVENUE MEASURES

FOR IMMEDIATE RELEASE
March 15, 2007
SRM-2

CONTACT: (202) 225-5522

Neal Announces Second in a Series of Hearings on the Alternative Minimum Tax

House Ways and Means Select Revenue Measures Subcommittee Chairman Richard Neal (D-MA) announced today that the Subcommittee on Select Revenue Measures will hold a hearing on the Alternative Minimum Tax (AMT). **The hearing will take place on Thursday, March 22, 2007, in Room B-318, Rayburn House Office Building, beginning at 10:00 a.m.**

The Subcommittee will examine the impact of the AMT on American families. In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The basic structure of the AMT was enacted in 1969 after it was disclosed by the Treasury Department that approximately 155 rich families, some of whom were millionaires, did not pay any income taxes. The AMT was designed to ensure that even the richest among us could not use exclusions, deductions, or credits to avoid all tax liability. Today, many decades later, the AMT has strayed from its original goal. Without Congressional action, the AMT is estimated to affect more than 23 million taxpayers in 2007.

There are two main reasons for the increasing number of taxpayers who will be subject to the AMT. First, the tax cuts under the regular income tax that were enacted as part of the "Economic Growth and Tax Relief Reconciliation Act of 2001" (P.L. 107-16), the "Jobs and Growth Tax Relief Reconciliation Act of 2003" (P.L. 108-27), and the "Working Families Tax Relief Act of 2004" (P.L. 108-311), have narrowed significantly the differences between regular and AMT tax liabilities for middle and higher income individuals. Second, regular income tax brackets are indexed for inflation, but the AMT thresholds are not. This has, over time, reduced further the differences between regular income tax liabilities and AMT liabilities at lower income levels.

Under current law, taxpayers filing joint returns with no dependents could be subject to the AMT at income levels as low as \$75,395 for the 2007 taxable year. This assumes that temporary protections for personal non-refundable credits and the higher exemption levels are not extended for the current tax year. By 2016, if the 2001 and 2003 tax cuts are extended, tax experts estimate that the number of taxpayers paying the AMT will increase to more than 48 million.

In announcing the hearing, Chairman Neal said, **"This AMT was originally designed to catch millionaires who were avoiding their tax liability through the use of excessive deductions. Today, that system has gone seriously awry. This year a family of four earning \$66,000 could be hit by the AMT. This was not meant to be. The AMT is a bipartisan problem and we must work together to find a bipartisan solution."**

FOCUS OF THE HEARING:

This hearing will examine the impact of the AMT on individual taxpayers, particularly middle-income taxpayers who were never intended to be subject to this tax.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “110th Congress” from the menu entitled, “Committee Hearings” (<http://waysandmeans.house.gov/Hearings.asp?congress=18>). Select the hearing for which you would like to submit, and click on the link entitled, “Click here to provide a submission for the record.” Once you have followed the on-line instructions, completing all informational forms and clicking “submit” on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Thursday, April 5, 2007. Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

[The revised advisory follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SELECT REVENUE MEASURES

FOR IMMEDIATE RELEASE
March 19, 2007
SRM-2 Revised

CONTACT: (202) 225-5522

Location Change for Subcommittee Hearing on Thursday, March 22, 2007, on the Alternative Minimum Tax

House Ways and Means Select Revenue Measures Subcommittee Chairman Richard Neal (D-MA), today announced that the Subcommittee hearing on the Alternative Minimum Tax, previously scheduled for Thursday, March 22, 2007, at 10:00 a.m., in Room B-318 Rayburn House Office Building, **has been moved to 1100 Longworth House Office Building.**

All other details for the hearing remain the same. (See Advisory No. SRM-2, dated March 15, 2007.)

Chairman NEAL. Let me call this meeting to order. Could I urge all to take their seats.

This is the second hearing of the Subcommittee on Select Revenue Measures, and again, our topic today will be the alternative minimum tax (AMT).

We have all seen those commercials where the parents tell the kids that this year, they will finally get to go to Disneyland. Imagine the followup conversation where the parents deliver the bad news that AMT took away their trip to see Mickey. This is the real life consequence.

There are real economic consequences for middle class working families who are told they owe more in taxes than they previously had thought.

Two weeks ago we heard from Treasury, the Taxpayer Advocate, and two think tanks about the problems with AMT.

Today we will hear from tax practitioners and from families who have been impacted by AMT. They will tell us that the AMT means no contribution for retirement, no savings for college, and no trip to Disney this year.

After these hearings, it is my intention to confer with Chairman Rangel and with our Republican counterparts, Mr. McCrery and Mr. English, about what would be the best approach for the Committee in tackling this problem.

It is also our intention to confer with Secretary Paulson as Treasury must be a partner in any long term solution to fix AMT.

As I stated at our last hearing, this is a bipartisan problem. It is balanced in its geography, and it needs a bipartisan solution. It is a tax increase threatening 23 million Americans this year, and

it will hit almost 30 million taxpayers by 2010, including virtually all families of four earning between \$75,000 to \$100,000.

The annual patch just keeps getting more difficult and certainly more expensive each year. Long term solutions seem even more difficult, if not impossible.

St. Francis acknowledged that we should “start by doing what is necessary, then do what is possible, and suddenly, you are doing the impossible.”

That is what I am committed to do, and I do not accept the notion that it is too hard to try. Many Members of this Committee know the pain and confusion of AMT. We are very fortunate today to hear some firsthand accounts from hard working families who have also been victimized by AMT. Their testimony will illuminate and inform us on this issue. I hope it will inspire us to action as well.

Let me welcome our witnesses today. From Loudoun County Virginia, we have Mr. Joel Campbell, a father of two and an unfortunate victim of the AMT for the last several years.

From Chicopee, Massachusetts, and a constituent, Ms. Margaret Rauh. Maggie is an experienced CPA and will tell us how her family will pay AMT this year, if Congress fails to act.

From Baltimore, Maryland, we have Mr. Michael Day, the President of the Baltimore County Professional Fire Fighters, Local 1311, of the International Association of Fire Fighters. Mr. Day is a father of three and represents the rank and file fire fighter, many of whom have been hit by AMT. He has been a fire fighter in Baltimore County since 1985.

We are also pleased to welcome our witnesses representing the tax practitioner groups today. Mr. David Lifson, the incoming President of the New York State Society of CPAs. New York State has the dubious honor of having one of the highest AMT participation rates in the nation, and I am sure that Mr. Lifson has many clients who are also unhappy with this honor.

Representing the American Institute of CPAs, Mr. Joe Walloch, who is a CPA from Redlands, California. Of the 23 million potential taxpayers to be hit by AMT in 2007, more than 4 million of them are estimated to live in California.

Finally, from Long Island, New York, we have Mr. Jon Nixon, a CPA, who will address the AMT problem for his clients, many of which are small businessowners.

I look forward to your testimony today, and let me recognize my friend and the Ranking Member, Mr. English, for his opening statement.

Mr. ENGLISH. Thank you, Mr. Chairman. I thank you for your openness to a discussion and a dialog on this important issue. I have been an opponent of the AMT going back to my earliest years in Congress, and it is my privilege to cochair the Zero AMT Caucus.

We think that repeal of the AMT has got to be a priority. I particularly look forward to the opportunity to hear from today's panel on the broad effects of the individual side of the AMT.

I understand that much of today's testimony will cover the effect of the AMT on families and individuals, and my hope is that we will have the opportunity to highlight and spend some time today

on the effect that the individual AMT has on the economy and particularly the most dynamic sector of the economy, on small business.

In our last hearing, I was pleased that the Subcommittee was able to probe and explore the unintended consequences of the individual AMT. I also hope that this panel will have an opportunity to explore the consequences of the corporate AMT and its drag on the American economy.

This week, I think it is particularly important to keep in mind that the individual AMT not only affects families, as we have so often heard from witnesses before the Committee, both last week and today, the individual AMT also impacts on the owners of some of the most effective job creating drivers in the American economy. These taxpayers can and are being hit by the growing monster that is the AMT.

As a result, these small businessowners are denied many pro-growth tax preferences which have passed this Congress on a bipartisan basis, which enable their businesses to thrive and expand.

Among the preferences that small businessowners affected by the denied individual AMT are accelerated depreciation on capital equipment, the research and development (R&D) tax credit, the work opportunity tax credit, the low income housing tax credit, the employer provided child care credit, and a panoply of other Congressionally created incentives.

The impact of losing these preferences perhaps even unexpectedly can be devastating for these vital employers.

Any attempt to redistribute the burden of an AMT fix disproportionately onto small businessowners, in my view, is moving in the wrong direction.

Such a move would continue to ensnarl small businesses in an unintended and unfair tax situation that stumps growth.

To reiterate my comments from last week's hearing, tax increases masquerading as reform is what gives this legislative process a bad name.

I hope that we can deal with this problem without doing this purely as a tax shift, and Mr. Chairman, I will just note I was discouraged to learn this morning that apparently at least one proposal that has been considered by the Budget Committee would not even have a patch this year for the budget. That would make our efforts on this panel very, very difficult.

My hope is that we can continue the dialog that you have created, that I think is very much to your credit, and find a middle ground for dealing with this problem.

I thank the panelists for taking time out from their busy lives to join us today.

Chairman NEAL. Thank you, Mr. English.

Without objection, any other members wishing to insert statements as part of the record may do so.

Ms. SCHWARTZ. Mr. Chairman, if I may, the Budget Committee did pass a budget last night at about 1:00 in the morning. Just for Mr. English's information, we did include a statement that said at least a 1 year patch.

The idea was to give this Committee an opportunity to potentially create a longer fix, a more permanent fix, but it does include

language that very specifically says there will be a patch for at least 1 year.

Mr. ENGLISH. Will the gentlelady yield? Is there anything for pay-go in that budget?

Ms. SCHWARTZ. As you know, we have a pay-go rule, and the Budget Committee did abide by the pay-go rule, so there are offsets for everything that we did.

Mr. ENGLISH. There is no offset for a patch, as I understood it.

Ms. SCHWARTZ. I do not think there is a specific offset in there, but there is no question—this is not an opportunity to discuss the budget right now, but I would be happy to sit down with you at a different point. I did not want to take the time in this hearing. I did want to just correct that for the record, that we actually will be doing it or it is our intention to do at least 1 year.

Mr. ENGLISH. If the gentlelady would yield, I do not think there is anything to correct. If there is not room in the budget for the patch, \$50 billion, then that is a serious problem that will affect how this Committee goes forward.

I yield back.

Mr. BLUMENAUER. Mr. Chairman?

Chairman NEAL. The gentleman from Oregon, Mr. Blumenauer.

Mr. BLUMENAUER. There is both the patch and there is a reserve fund that gives our Committee an opportunity to do its job, so there is running room if the Committee on Ways and Means steps forward as our leadership on both sides of the aisle has indicated an interest in doing, that the budget will allow for that.

Chairman NEAL. I thank the gentleman.

Written statements by the witnesses will also be inserted into the record as well.

Let's begin with Mr. Campbell. Thank you for being here.

STATEMENT OF JOEL CAMPBELL, INDIVIDUAL TAXPAYER, ACCOMPANIED BY ART AUERBACH, GOODMAN AND COMPANY, CERTIFIED PUBLIC ACCOUNTANTS, McLEAN, VIRGINIA

Mr. CAMPBELL. Mr. Chairman, distinguished Members of the House Committee on Ways and Means on Select Revenue Measures, I really want to thank you for the opportunity to appear before you today.

My name is Joel Campbell. I am a taxpayer. I am a resident of Loudoun County in Northern Virginia, which you might know is recognized as one of the fastest growing counties in the country.

I appreciate this chance to share a middle class taxpayer's perspective on the AMT. I, in fact, and my family have been caught in this trap for each of the past 4 tax years, paying on average \$1,000 in AMT.

My family of four lives in a rapidly growing area, as I said, where our assessed values on our homes are increasing at double digit percentages every year. This has caused big increases in our real property tax, which we pay for our property.

The increasing taxes we pay there plus the increases in state income tax and local personal property tax, none of which are deductible, is the underlying cause of my family being subjected to the AMT.

This is, of course, on top of the loss of what you might consider normal middle class tax deductions for things like college tuition and others, which are phased out for our family based on our adjusted gross income.

In addition, the tax cuts enacted by Congress have lowered the regular tax, and that is an additional factor in my being subject to the AMT.

In sort, the lower tax rates really have not provided any relief to my family, no real benefit in that regard.

As I am sure you are all aware, any incremental dollars coming into middle class households impact the family as well as the community. I have one child in college, another who will be attending college in the very near future. Therefore, any additional dollars we receive into our household truly have great value.

With the average U.S. citizen attempting to fund education for their children, retirement for themselves, and provide health care for the family, all of which are increasing faster than income or inflation, any loss of disposable income is a grave cause for concern.

The desire of all working persons is to increase their earnings, live the American dream. However, the AMT seems to be a disincentive to having increased earnings. As earnings increase, so do state and local income taxes. Added to that, your tendency to move to a nicer neighborhood in a newer home that increases your real property tax, each of which added together increase your chances of being subject to the AMT.

This can also have a marked effect on the economy. As with any budget, when revenue is lost, spending has to come under the microscope.

From statistics that I have seen, if there is no action by Congress, by the year 2010, more than 80 percent of households with incomes between \$100,000 and \$200,000 and almost half of those with incomes between \$75,000 and \$100,000 will pay the AMT.

Because of these items identified as tax preferences, these households, like mine, will be looking at their spending patterns as I have done, to determine where the additional revenues are going to be coming from to finance the simple every day household expenses.

Because I have been hit by this tax, it has caused my family to take a closer look at the items that are considered add backs to regular income, and therefore, increase the likelihood of being subject to the AMT.

I believe some adjustments should be made for rising medical costs, which currently have an increased threshold under the AMT, perhaps even an allowance for a personal exemption should be extended to the AMT calculations, as this tax seems to impact larger families more than others.

Those who live in high tax jurisdictions also will face a higher likelihood of facing the AMT, without the normal benefit of claiming these increased deductions, these expenses as deductions.

The 2006 tax year and the next 2 tax years is the timeframe Congress set for marriage penalty relief. However, all of this relief only causes a regular lower tax and increases the chance of being subject to the AMT. By 2010, married couples will have a greater chance than single individuals of being hit by the AMT.

Some coordinated reform to assist middle class families like mine needs to be achieved to increase the incentive to get ahead and provide a better future for our families. If more tax dollars are taken, where are we supposed to get the money to educate our children and save for retirement?

Perhaps indexing the exclusions for inflation will allow us to keep pace and not be penalized for earning more.

Ladies and gentlemen, I thank you for the opportunity to share my views with you today.

[The prepared statement of Mr. Campbell follows:]

Prepared Statement of Joel Campbell, Individual Taxpayer, accompanied by Art Auerbach, Goodman and Company, LLP, Certified Public Accountants, McLean, Virginia

Mr. Chairman and members of the House Ways and Means Subcommittee on Select Revenue Measures, I thank you for the opportunity to appear before you today. I am, Joel Campbell, a taxpayer and resident of Loudoun County in Northern Virginia.

I appreciate the chance to share a middle class taxpayer's perspective on the alternative minimum tax. I have been "caught" by the alternative minimum tax each tax year for the past 4 years. I have paid on average about \$1,000 each of those years in alternative minimum tax.

My family of four lives in a rapidly growing area where the assessed values on our homes have been increasing at double digit percentages. This has caused big increases in the real property tax assessed against the property. The increasing real estate tax plus the amounts paid for the state income tax and the local personal property tax, none of which are deductible for the alternative minimum tax, is the cause of my being subject to the AMT. This is of course on top of the loss of middle class deductions for things like college tuition payments based on AGI. In addition, the tax cuts enacted by the Congress have lowered the regular tax and that is an additional factor in my being subject to AMT. In short, the lower tax rates have really not provided me or my family with much of a benefit.

As I am sure you are aware, any incremental dollars coming into a middle class household impacts the family as well as the community. I have one child in college and another who will be attending college in the near future. Thus any additional dollars coming into our household have a great value. With the average citizen attempting to fund education for their children, retirement for themselves and provide health care for the family, all of which are increasing faster than income or inflation, any loss of disposable income is a cause for concern. The desire of all working persons is to increase their earnings; however, the AMT seems to be a disincentive to having increased earnings. As earnings increase, so do state and local income taxes. Additionally, there is the tendency to move to a larger home and thus increase real property tax and all this increases the chances of being hit by the AMT.

This can also have a marked effect on the economy, as with any budget, when revenue is lost, spending has to come under the microscope. From statistics that I have seen, if there is no action by Congress, more than 80% of the households with incomes between \$100,000 and \$200,000 and almost half of those with incomes between \$75,000 and \$100,000 will pay the AMT by 2010. Because of those items identified as "tax preferences" these households will be looking at their spending patterns, as I have done, to determine where the additional revenues are going to be coming from to finance simple household expenses.

Because I have been "hit" by this tax, it has caused me to take a closer look at those items that are considered "add backs" to regular income and thus increase the likelihood of being subject to AMT. I believe some adjustment should be made for rising medical (these currently have an increased threshold for the AMT), taxes and mortgage interest (where home equity loans create greater scrutiny). Perhaps even an allowance for personal exemptions should be extended to the AMT, as this tax seems to impact larger family units more than others. Thus those who live in high tax jurisdictions will face a greater likelihood of facing the AMT, without the normal benefit of claiming these increased expenses as deductions.

For the 2006 and the next 2 years is the timeframe for achieving some marriage penalty relief in the tax cut world. However, all this relief only causes a lower regular and increases the chances of being subject to the AMT. By 2010 married couples will have a greater chance than single individuals of being hit by the AMT.

Some coordinated reform to assist the middle class needs to be achieved to increase the incentive to get ahead and move forward in planning. If more tax dollars are taken, where are we supposed to get the money to educate our children and save for our retirement? Perhaps indexing the exclusions for inflation would allow us to keep pace and not be penalized by earning more.

I again thank you for the opportunity to share my views with you.

Chairman NEAL. Thank you, Mr. Campbell.
Mrs. Rauh.

STATEMENT OF MARGARET L.N. RAUH, INDIVIDUAL TAX-PAYER, ACCOMPANIED BY JAY PRIMACK, MORIARTY & PRIMACK, P.C., CERTIFIED PUBLIC ACCOUNTANTS, SPRINGFIELD, MASSACHUSETTS

Ms. RAUH. Good morning and thank you for letting me address the Subcommittee today. My name is Maggie Rauh. I am a wife, a mother of three, and work full time as a certified public accountant.

I have a Master's in taxation and have been working in the tax field for over 17 years.

During my career, I have worked with clients from all different backgrounds and income levels. Many of these clients have been in an AMT position when filing their individual income tax returns. Generally, the clients in AMT were in the highest tax bracket.

I was able to keep them out of AMT with some planning. When explaining to the affected clients why the tax applied to them, there was always a logical explanation. They had large itemized deductions or exercised some incentive stock options. Now, that reasoning does not apply.

Throughout the year, I am in the habit of projecting my income tax liability to ensure that we get a substantial refund. With three young children, saving is often impossible. We use our tax refund as our forced savings plan. The refunds usually go to our extra's, which often include a new computer or possibly a vacation to Disney World.

In February, I projected our refund for 2007 and was dumbfounded when I saw that we were going to be in AMT. Our refund would be decreased by over \$1,300. Our projected income is the same, approximately \$75,000 total. We do not itemize our deductions. We use the standard deduction for married couples and have five personal exemptions, one for each child and my husband and myself. There is no planning to be done to avoid the AMT we will pay. Our tax bracket will go from 15 percent to 26 percent.

The AMT exemption was increased by the Tax Increase Prevention and Reconciliation Act of 2005, but only through the end of 2006.

I will be in AMT solely because the exemption is no longer increased.

As a CPA, I understand the purpose behind AMT and why it was implemented, but I suggest that what is happening to my family and to millions of others shows the AMT no longer serves its intended purpose.

Thank you for letting me address the Subcommittee today.

[The prepared statement of Ms. Rauh follows:]

Prepared Statement of Margaret L.N. Rauh, Individual Taxpayer, accompanied by Jay Primack, Moriarty & Primack, P.C., Certified Public Accountants, Springfield, Massachusetts

Good morning. Thank you for letting me address the Subcommittee today. My name is Maggie Rauh. I am a wife, a mother of three and work full time as a certified public accountant. I have a Master's in taxation and have been working in the tax field for over 17 years.

During my career, I have worked with clients from all different backgrounds and income levels. Many of these clients have been in an Alternative Minimum Tax position when filing their individual income tax returns. Generally, the clients in AMT were in the highest tax bracket. I was able to keep them out of AMT with some planning. When explaining the tax to clients, there was always a logical reason—large itemized deductions or incentive stock options being exercised.

But that is no longer the case. Throughout the year, I am in the habit of projecting my income tax liability, to ensure that we get a substantial refund. With three young children, savings is often impossible. We use our tax refund as our “forced” savings plan. The refunds usually go for our “extras”—a new computer or our vacation to Disneyworld.

In February, I projected our refund for 2007 and was dumbfounded when I saw that we were going to be in AMT. Our refund would be decreased by over \$1,300. Our projected income is the same—approximately \$75,000. We do not itemize our deductions. We use the standard deduction for married couples and have 5 personal exemptions, one for each child, myself and my husband. There is no planning to be done to avoid the AMT we will have to pay. Our tax bracket will go from 15% to 26%.

The AMT exemption was increased by the Tax Increase Prevention and Reconciliation Act of 2005, but only through 2006. I will be in AMT solely because the exemption is no longer increased.

As a CPA, I understand the purpose behind AMT and why it was implemented. What is happening to my family, and millions of others, was not the intention.

Chairman NEAL. Thank you, Mrs. Rauh.
Mr. Day.

STATEMENT OF MICHAEL K. DAY, SR., PRESIDENT, BALTIMORE COUNTY PROFESSIONAL FIRE FIGHTERS ASSOCIATION, COCKEYSVILLE, MARYLAND, ON BEHALF OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

Mr. DAY. Good morning, Chairman Neal, Ranking Member English, and distinguished Members of the Subcommittee.

My name is Michael Day. I am a fire fighter and President of the Baltimore County Professional Fire Fighters, Local 1311, of the International Association of Fire Fighters (IAFF).

I am pleased to appear before you here today representing the more than 280,000 professional fire fighters and emergency personnel from every state in the nation who comprise the IAFF.

Since 1985, I have served the people of Baltimore County, Maryland as a fire fighter and paramedic. Just as importantly, I am married, have a mortgage, and have three children.

As a fire fighter who has served his community and who pays his taxes every year, I would like to give you a fire fighter's perspective on what I call the “un-American tax,” or as you know it, the AMT.

Mr. Chairman, it is that time again, tax time, and fire fighters like me are rolling up their sleeves to fill out their forms at their kitchen tables to pay Uncle Sam by April 17th.

When I first heard the words “alternative minimum tax,” I figured with the word “minimum” and “tax” together, if anything, taxpayers would fork over less to Uncle Sam, not more. I figured that

the AMT would be anything but a tax increase. That it would target anyone but fire fighters, and that it would impact anyone but middle class Americans. Unfortunately, I was dead wrong.

Next year, the AMT will hit me, a married fire fighter and father of three with a tax increase. Ask yourself, was the AMT created to affect people like me? Do you consider a fire fighter married with three kids well off? I am just trying to serve my community, raise my family, pay my mortgage, and make ends meet.

The AMT has got it wrong. It is up to you to get it right. If ignored, the AMT could also target my fellow brothers and sisters in my fire house and the other stations across the country.

The AMT could punish taxpayers like me for honoring the fundamental American values of family and hard work. The more I learn about it, the more today's AMT seems not only unfair but un-American.

As a fire fighter, when you respond on a call, you never know what to expect. In some ways, the AMT reminds me of a fire call. Each time we pay Uncle Sam, we never know what to expect. There is a difference. As fire fighters, we spend years training for the real thing so we are prepared for when the emergency strikes.

As taxpayers, we are not trained to pay the AMT. We spend long enough trying to learn the rules of the regular income tax so we can pay what we owe and pay it on time.

If you thought the regular tax rules were tough, with the AMT, there is a whole new second set of rules, a whole new can of worms. Fire fighters are great at multi-tasking, but having two completely different sets of rules for paying Uncle Sam is overly demanding even for us.

The AMT was not even designed to affect us in the first place, but penalizes us just the same. Every year, the rules of the game change under the AMT, but the penalties for breaking them stay the same. The AMT puts the word "code" in "tax code."

In the fire service, if something is not working, we fix it. Broken or malfunctioning equipment puts our lives and our neighbors' lives in jeopardy.

The AMT was created in the 1960s to make sure that wealthy taxpayers did not escape taxes using tax shelters, and were required to pay their fair share. Fire fighters, at least this one, I know, do not have Swiss bank accounts to avoid paying their taxes.

Over the past four decades, the AMT has unintentionally evolved from a tax on the wealthiest few and has now invaded middle class households living paycheck to paycheck, making checkbooks across the country that much harder to balance every month.

While I fully believe we all must pay our fair share, especially during times of record deficits and strained budgets, I feel compelled to note that over the past 7 years, Congress has seen fit to pass \$1.8 trillion in tax cut giveaways to the wealthiest Americans, all while the AMT and its middle class punch was ignored and put off year after year.

It was only through the band-aids at the 11th hour that middle class taxpayers were rescued, only temporarily, from the AMT, only to be thrown back in its path a year later.

At the same time, the AMT has become a crutch for the Federal Government. I, for one, do not believe fire fighters and other hard

working Americans should be left to prop up misguided fiscal policies that have largely benefited the wealthiest taxpayers.

It is broken, and we are asking you to fix it. Thank you very much.

[The prepared statement of Mr. Day follows:]

Prepared Statement of Michael K. Day, Sr., President, Baltimore County Professional Fire Fighters Association, Cockeysville, Maryland, on behalf of the International Association of Fire Fighters

Good morning Chairman Neal, Ranking Member English, and distinguished Members of the Subcommittee. My name is Michael Day and I am a fire fighter and President of the Baltimore County Professional Fire Fighters, Local 1311 of the International Association of Fire Fighters. I am pleased to appear before you today representing the more than 280,000 professional fire fighters and emergency personnel from every state in the nation who comprise the IAFF.

Since 1985, I have served the people of Baltimore County, Maryland as a fire fighter and paramedic. I currently hold the rank of Fire Specialist, responsible for in-station training and fire protection services. In 2000, I was elected President of Local 1311, which represents the 1200 professional fire fighters who protect Baltimore County.

Just as importantly, I am married, have a mortgage, and have three children. I also serve my community as Chairman of the Baltimore County Health Care Review Committee, as a Trustee on the Baltimore County Employees Retirement System, and on the Executive Board of the Baltimore Port Council.

As a fire fighter who has served his community and his Nation for 22 years and who pays his taxes every year, I am honored and grateful for the opportunity to appear before you today to give you a fire fighter's perspective on what I call the un-American tax, or as you know it, the alternative minimum tax.

Mr. Chairman, it's that time again, tax time, and fire fighters like me are rolling up their sleeves to fill out forms at their kitchen tables to pay Uncle Sam by April 17th. When I first heard the words "alternative minimum tax," I figured that with the words "minimum" and "tax" together, if anything, taxpayers would fork over less to Uncle Sam, not more. I figured that the AMT would be anything but a tax increase; that it would target anyone but fire fighters; and that it would impact anyone but middle-class Americans. Unfortunately, I was dead wrong.

Next year the AMT will hit me, a married fire fighter and father of three, with a tax increase. Ask yourself, was the AMT created to affect people like me? Do you consider a fire fighter, married with three kids, well off? I am just trying to serve my community in Baltimore County, Maryland, raise my family, pay my mortgage, and make ends meet like everybody else. The AMT has got it wrong, and it's up to you to get it right. If ignored, the AMT could also target my fellow brothers and sisters in my fire house and in other stations across the country. The AMT could punish taxpayers like me for honoring the fundamental American values of family and hard work. The AMT punishes you once for raising a family and then again depending on where you choose to raise your family. The more I learn about it, the more the alternative minimum tax seems to me more like a fire fighter tax and a middle class tax. The more I learn about it, the more today's AMT seems not only unfair, but un-American.

The AMT is one fire we should not have to fight

As a fire fighter, when you respond to a call, you never know what to expect. Riding on that rig, on your way to that fire emergency, you know it could always be your last. You and your crew are willing to sacrifice everything for the sake of the families in your community. In some ways, the AMT reminds me of a fire call. Each time we pay Uncle Sam, we never know what to expect. But there is a difference. As fire fighters, we spend years training for the real thing and then when emergency strikes, we rise to the occasion and do what we were trained to do: run into burning buildings and save lives. As taxpayers, we are not trained to pay the AMT. We spend long enough trying to learn the rules of the regular income tax so we can pay what we owe and pay it on time. If you thought the regular tax rules were tough, with the AMT there is a whole new second set of rules, a whole new can of worms. Fire fighters are great at multi-tasking, but having two completely different sets of rules for paying Uncle Sam is overly demanding, even for us.

Together fire fighters and other middle-income taxpayers confront the same unknown, unpredictable AMT: a complex tax that wasn't even designed to target us in the first place, but penalizes us all the same. Every year the rules of the game

for you may change under the AMT, but the penalties for breaking them stay the same. The AMT truly puts the word code in “tax code.” Under the AMT, we never know what kind of tax increase Uncle Sam may smack us with next. What is worse is that the AMT has the potential to engulf more and more taxpayers every year, unless Congress acts. It’s hard to believe, Mr. Chairman, but the alternative minimum tax gives even the word tax a bad name.

The AMT is broken, and Congress must fix it

In the fire service, if something isn’t working, we fix it. Broken or malfunctioning equipment puts our lives and our neighbors’ lives in jeopardy. We fix our trucks, our equipment, our stations, to protect ourselves so we can best protect our community. The AMT was created in the sixties to make sure that wealthy taxpayers did not escape taxes using tax shelters, and were required to pay their fair share. Fire fighters, at least the ones I know, do not have Swiss bank accounts to avoid paying their taxes. And not too many fire fighters I know try to incorporate in the Bahamas to get a tax break. Over the past four decades, the AMT has unintentionally evolved from a tax on the wealthiest few and has now invaded middle-class households living paycheck to paycheck, making checkbooks all across this country that much harder to balance every month.

While I fully believe we all must pay our fair share, especially during times of record deficits and strained budgets, I feel compelled to note that over the past 7 years Congress has seen fit to pass \$1.8 trillion in tax cut giveaways to the wealthiest Americans, all while the AMT and its middle class punch was ignored and put off year to year. For 6 years we have celebrated tax cuts and turned a blind eye to the AMT. It was only through band-aids at the eleventh hour that middle-income taxpayers were rescued—only temporarily—from the AMT, only to be thrown back into its path a year later. Some have openly taken a “wait-and-watch” attitude toward the AMT. This irresponsible approach turns its back on the middle class and does the utmost disservice to the American people.

The AMT has transformed into a tax on the very people it sought to protect. Congress created the AMT to protect the middle class from paying more than their fair share while the upper class gamed the system to dodge their fair share. Now, almost 40 years later and after 6 years of tax cuts, what once protected the middle class, has come back to haunt it. No more eleventh-hour band-aids. No more charades. The AMT is broken, and Congress must act now to permanently fix it.

The AMT strains the monthly budgets of middle-class families

If Congress fails to act, millions more taxpayers will know all too well the taxpayer’s nightmare that is the alternative minimum tax. Only after completing a 16-line worksheet, 10 pages of instructions, and a 55-line form, I come to find out the AMT would stick me with a higher tax bill next year if Congress does not act. Again, I have to ask why? Why is the AMT targeting me?

Two calculations, two sets of forms, two sets of rules, but one reality: the AMT would take a bigger bite out of my fire fighter salary than the regular income tax. The AMT could take away the money I earn by working day in and day out at the fire station to support my family, to save for my children’s college education, and to put away for my own retirement. It would force me as a middle-class fire fighter to work more to keep my own money. It makes saving money that much harder. It makes paying bills that much harder. It makes saving for retirement that much harder. It makes providing for my children that much harder. And it makes living on a fire fighter’s salary—\$32,500 to start in Baltimore County—that much harder.

And I am not alone. Fire fighters are disproportionately affected by the AMT because it targets our demographic: married, middle class taxpayers with kids in high-tax states. The AMT penalizes us not only for raising a family, but it also disadvantages us depending on where you raise your family. With increasing health insurance expenses as a result of hazardous and strenuous work conditions and with increasing homeland security responsibilities, fire fighters especially do not have room in their monthly budgets for a tax increase.

Moreover, fire fighters in Baltimore County, like those in many other jurisdictions across the country, get incentive pay for additional fire and homeland security training and education. So, the more skills we develop to better protect their community, the more susceptible we are to AMT.

The AMT has become a crutch for the Federal budget, but I don’t believe fire fighters and other hard working Americans should be left to prop up misguided fiscal policies that have largely benefited the wealthiest taxpayers. The AMT may be expensive for the Federal Government to fix, but it is even more costly for fire fighters and the middle class who are accidentally affected by it. Today’s AMT is unjust

and un-American. It must be permanently fixed for the sake of working families like mine.

Conclusion

Mr. Chairman, tax day is just over 3 weeks away. Thousands of fire fighters like me are wading through shoeboxes full of receipts and gearing up to pay for the privilege to live in this great Nation. We understand our duty as citizens to pay our taxes. We pay them. We pull our own weight. We sacrifice our fair share. In return, all we ask of our government is to give us a fair shake. Everyone agrees that the AMT is no fair shake. Today's AMT defies its own original purpose: to ensure that wealthy Americans pay their fair share in taxes. Today's AMT requires permanent action, not piecemeal reaction. The Congress should act now to permanently reform this un-American tax once and for all.

Chairman NEAL. Thank you, Mr. Day.
Mr. Walloch.

**STATEMENT OF JOSEPH W. WALLOCH, PRESIDENT AND CEO,
WALLOCH & ASSOCIATES, REDLANDS, CALIFORNIA, ON BE-
HALF OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS**

Mr. WALLOCH. Chairman Neal, Ranking Member English, and distinguished Members of the Subcommittee, the American Institute of Certified Public Accountants (AICPA) thanks you for the opportunity to appear before you today.

I am Joe Walloch, incoming Chair of the AICPA Individual Tax Technical Resource Panel, President of Walloch & Associates, CPAs in Redlands, California, and Professor of Advanced Taxation at the University of California, Riverside.

The AICPA is the national professional organization of CPAs, with over 330,000 members. Our members advise clients on Federal, state and international tax matters, and prepare income tax returns for millions of American families.

CPAs provide services to small and medium sized family businesses, as well as America's largest businesses. It is from this broad base of experience that we offer our comments today on the AMT.

While an estimated 4 million taxpayers were subject to AMT in 2006, it is projected that in 2007, absent a change in law, 23 million individual taxpayers, or about 26 percent of individual filers who pay income tax, are likely to be subject to the AMT.

Although the AMT was originally intended to be a tax on the wealthy, among the categories of taxpayers projected to be hardest hit by AMT are 89 percent of families of married couples with two or more children with modest incomes between \$75,000 and \$100,000.

Married taxpayers will be almost 15 times as likely as single taxpayers to pay AMT in 2007.

A case in point is the Klaassen family. In 1994, David and Margaret Klaassen of Marquette, Kansas, had a large family of 10 children, and thus, were entitled to 12 exemptions for regular tax purposes. Their adjusted gross income for the year amounted to \$83,000.

The Klaassens are not wealthy, nor do they use tax shelters to reduce their income tax. However, they were assessed an AMT of

\$1,085 because the AMT calculation does not allow them to claim (1) their 12 personal exemptions; (2) their Kansas state income tax of over \$3,000; and (3) a portion of medical expenses of their large family, including more than \$2,000 of out-of-pocket medical expenses for treatment of their son's cancer.

The convoluted mathematics of the AMT eliminates all of their personal exemptions to which they were otherwise entitled each year. The AMT has cost the Klaassen family in excess of \$25,000 over 10 years.

The AMT has become a penalty on large families.

The Klaassens also lost their state income tax deduction. The loss of the state income tax deduction for AMT represents a major inequity between high income tax states, including California and New York, and low or no income tax states, including Texas and Florida.

In another case, Aaron Law had adjusted gross income of \$62,000, but had zero regular tax, primarily because of substantial unreimbursed employee business expenses. He paid these job related expenses with the reasonable expectation that he would be entitled to a tax deduction.

These legitimate job related expenses are classified as miscellaneous deductions, and as such, are not deductible for the AMT.

Mr. Law was assessed an AMT of \$7,267 as a result. The loss of job related costs for AMT impacts many American families, including police officers, fire fighters, teachers, and nurses.

The Tax Court Judge stated "However unfair this statute may seem, the Court must apply the law as written, the proper place for consideration of petitioner's complaint is the halls of Congress."

Another example of how families are affected by the AMT is the loss of the credit for hybrid cars and other energy efficient vehicles. Thus, a taxpayer may buy a hybrid car for personal use believing that they will be entitled to a tax credit of up to \$3,400.

However, if they are subject to the AMT, they will receive no tax benefit for the hybrid vehicle. Therefore, the credit created to promote the purchase of a "green car" and reduce a citizen's "carbon footprint" is wasted, and that taxpayer responding to this presumed incentive feels cheated because of AMT.

Due to the AMT complexity, increasing AMT impact on unintended taxpayers and AMT compliance and enforcement problems, the AICPA supports the outright repeal of the individual AMT. However, we recognize that repealing the AMT would generate a new set of problems given the large loss of tax revenue to the Federal Government.

If repeal is not possible, we urge Congress to consider the AICPA's baker's dozen of recommended solutions presented in our written testimony, which we believe would reduce or eliminate most of the complexity and unfair impact of the AMT as currently imposed.

Our recommendations include solving the problems presented in these examples, including eliminating personal exemptions, state income taxes, medical expenses, and miscellaneous itemized deductions, including job related costs as AMT preferences, as well as allowing all personal credits against the AMT.

Thank you, Chairman Neal, Ranking Member English, and distinguished Subcommittee Members, for the opportunity to share these views with you.

[The prepared statement of Mr. Walloch follows:]

Prepared Statement of Joseph W. Walloch, President and CEO, Walloch & Associates, Redlands, California, on behalf of the American Institute of Certified Public Accountants

Mr. Chairman and Members of the House Ways and Means Subcommittee on Select Revenue Measures, the American Institute of Certified Public Accountants thanks you for the opportunity to appear before you today. I am Joseph W. Walloch, Incoming Chair of the AICPA Individual Income Tax Technical Resource Panel; and the President and CEO of Walloch & Associates, CPAs, Redlands and San Bernardino, California.

The AICPA is the national, professional organization of certified public accountants comprised of approximately 330,000 members. Our members advise clients on Federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. They provide services to individuals, not-for-profit organizations, small- and medium-sized businesses, as well as America's largest businesses. It is from this broad base of experience that we offer our comments today on the alternative minimum tax.

The primary reasons for the burgeoning AMT problem are that marginal tax rates have been reduced substantially over the past several years while the AMT rates have remained the same, and the AMT exemption has not been indexed for inflation. This latter factor has been ameliorated somewhat with the patchwork increases that have been enacted on a year-by-year basis, but this doesn't seem to be a satisfactory way to deal with the problem.

SIMPLIFYING THE INDIVIDUAL ALTERNATIVE MINIMUM TAX

Present Law

Background

Our tax laws give special treatment to certain types of income and allow special deductions for certain expenses. These laws enable some taxpayers with substantial economic income to significantly reduce or eliminate their regular tax. The alternative minimum tax (AMT) was created to ensure that all taxpayers pay a minimum amount of tax on their economic income.

Complexity of AMT

The AMT is one of the tax law's most complex components. In fact, the AMT is a separate and distinct tax regime from the "regular" income tax. Internal Revenue Code¹ sections 56 and 57 create AMT adjustments and preferences that require taxpayers to make a second, separate computation of their income, expenses, allowable deductions and credits under the AMT system. Taxpayers who own businesses must also track each of the annual supplementary schedules used to compute these necessary adjustments and preferences for many years to calculate the treatment of future AMT items and, occasionally, receive a credit for them in future years. Calculations governing AMT credit carryovers are complex and contain traps for unwary taxpayers.

Often, taxpayers cannot calculate AMT directly from information reported on their regular tax return, which makes the computations extremely difficult for taxpayers preparing their own returns. Including adjustments and preferences from pass-through entities also contributes to AMT complexity. This complexity also affects the IRS's ability to meaningfully audit compliance with the AMT.

Burgeoning Impact of the AMT

Although most sophisticated taxpayers are aware of the AMT and that they may be subject to its provisions, the majority of middle-class taxpayers has never heard of the AMT and are unaware that it may apply to them. Unfortunately, the number of taxpayers facing potential AMT liability is expanding exponentially due to "bracket creep" and classifying as "tax preferences" the commonly used personal and dependency exemptions, standard deductions, and itemized deductions for taxes paid, some medical costs, and miscellaneous expenses.

While approximately 4 million taxpayers were subject to AMT in 2006, it is projected that in 2007, absent a change in law, 23.4 million individual taxpayers—or

¹All references to "section" numbers refer to Internal Revenue Code section numbers.

about 26 percent of individual filers who pay income tax—are likely to be subject to the AMT.² Among the categories of taxpayers hardest hit, 89 percent of married couples with adjusted gross incomes between \$75,000 and \$100,000 and two or more children are expected to owe AMT.³

Married taxpayers will be almost 15 times as likely as single taxpayers to pay AMT in 2007.⁴

By 2010 the number of AMT filers is projected to grow to 32.4 million.⁵ Among taxpayers with incomes between \$100,000 and \$200,000, a staggering 80 percent are expected to be subject to the AMT.⁶

Even more notable, the AMT is projected to affect a higher percentage of taxpayers with incomes between \$75,000 and \$100,000 (50 percent) than taxpayers making more than \$1 million (39 percent).⁷ According to these projections, approximately 5.7 million taxpayers will pay AMT in 2010 simply because they lose the benefit of personal exemptions under the AMT.⁸

As IRS National Taxpayer Advocate Nina Olson pointed out in her March 7, 2007 testimony on the individual AMT before this committee:

The burden that the AMT imposes is substantial. In dollar terms, it is estimated that each AMT taxpayer will owe, on average, an additional \$6,782 in tax in 2006. In terms of complexity and time, taxpayers often must complete a 16-line worksheet, read 10 pages of instructions, and complete a 55-line form simply to determine whether they are subject to the AMT. Thus, it is hardly surprising that 77 percent of AMT taxpayers hire practitioners to prepare their returns.

Given these estimates, Congress should review information and studies available from the Joint Committee on Taxation, the Congressional Research Service, the Treasury Department, the National Taxpayer Advocate, and the Office of Management and Budget. These information sources document not only how recent tax changes interact with the AMT, but also the rapidly expanding number of taxpayers who will be paying AMT unless modifications are enacted soon.

Examples of Families Affected by the AMT

A case in point is the Klaassen family.⁹ In 1994, Mr. and Mrs. Klaassen of Marquette, Kansas had a large family of 10 children and thus were entitled to 12 exemptions for regular tax purposes. Their adjusted gross income for the year amounted to \$83,056.

The Klaassens are not wealthy nor do they use tax shelters to reduce their income tax. However, they were assessed an AMT of \$1,085 because the AMT calculation does not allow them to claim: (1) their 12 personal exemptions; (2) their state and local taxes of \$3,264; and (3) some of the otherwise deductible medical expenses of their large family, including \$2,076 dollars out-of-pocket medical expenses for treatment of their son's cancer.

As a result of their growing family, in 1995, the Klaassens claimed 13 exemptions, 14 in 1996 and 1997, and 15 in 1998, 1999, 2000, and 2001. In 2002 and 2003, their total personal exemptions fell to 14. Their joint AGI for each of these tax years was well below the threshold amount established by section 151(d)(3)(C) which would otherwise reduce the total exemption amount they could claim. Despite this fact, the convoluted mathematics of the AMT has effectively eliminated the total exemption amount to which they were entitled each year. In this manner, the AMT has become a penalty on large families solely because of their size. It is in this very manner that the AMT has cost the Klaassen family in excess of \$25,000 over the past 10 years.¹⁰

In another case, Mr. Aaron Law had adjusted gross income of \$62,659 but had a zero regular tax primarily because of substantial unreimbursed employee business

²Greg Leiserson & Jeffrey Rohaly, *The Individual Alternative Minimum Tax: Historical Data and Projection* updated November 2006, table 1 (November 10, 2006) (available at www.taxpolicycenter.org or on Lexis/Nexis at 2006 TNT 219–50).

³*Id.* at table 3.

⁴*Id.*

⁵*Id.* at table 1.

⁶*Id.* at table 3.

⁷*Id.*

⁸Leonard E. Burman, William G. Gale & Jeffery Rohaly, *The AMT: Projections and Problems*, Tax Notes, July 7, 2003, pp. 105–106 (available at www.taxpolicycenter.org).

⁹Klaassen, et al. v. Commissioner, 99–1 USTC paragraph 50,418 (10th Cir. 1999).

¹⁰Statement of David R. Klaassen, Simplification of the Tax System, Hearing Before the Subcommittee on Oversight of the House Committee on Ways and Means, 108th Congress, 2nd Session, June 15, 2004, Serial 108–68.

expenses related to his job. These legitimate unreimbursed employee business expenses are classified as miscellaneous deductions and as such are not deductible for the AMT. Mr. Law was assessed an AMT of \$7,267 because he paid job related expenses. Tax Court Judge Couvillion stated, “However unfair this statute may seem . . . the court must apply the law as written . . . the proper place for consideration of petitioner’s complaint is the halls of Congress, not here.”¹¹

Another example of how families are affected by the AMT occurs with regard to the alternative motor vehicle credit (section 30B) and the credit for alternative fuel refueling property (section 30C), neither of which offset AMT. This includes the credit for hybrid and other energy efficient vehicles. Thus, a taxpayer may buy a hybrid car believing that they will be entitled to a tax credit of up to \$3,400. However, if they are subject to the AMT, they will receive no tax benefit for the hybrid vehicle. Therefore, the credit created to promote the purchase of a “green car” and reduce a citizen’s “carbon footprint” is wasted, and the taxpayer responding to this incentive feels cheated because of AMT.

For additional examples of the impact of AMT on families, see pages 6–7 of IRS National Taxpayer Advocate Olson’s March 7, 2007, testimony before this Committee.

Compliance Issues

Because AMT brackets and exemptions are not indexed annually, taxpayers with adjusted gross incomes below \$75,000 (some much lower) will soon be subject to AMT. AMT was not created to target these lower-middle-income taxpayers. Apart from the fairness issue, this situation creates potentially serious compliance and administration problems. Because many, if not most, of these taxpayers have no idea that they may be subject to the AMT—or even that there is an AMT—we anticipate that large numbers of taxpayers required to file Form 6251 and pay the AMT will fail to do so. This will require an enormous extra enforcement burden for the IRS.

Most of these now non-compliant taxpayers who, in good faith, filed their tax returns the way they always have might be first made aware of this new tax obligation through IRS notices assessing the proper AMT. Thus, taxpayers may well be faced with penalties and interest on this “surprise” tax several years after the returns are, in their view, properly and timely filed.

ALTERNATIVE SOLUTIONS

Due to the increasing complexity, increasing impact on unintended taxpayers, and compliance problems, the AICPA supports repealing the individual AMT altogether. However, we recognize that simply eliminating the AMT would generate a new set of problems given the large loss of tax revenue that would accompany such a move.

If repeal is not possible, we urge Congress to consider the following alternative solutions, which we believe would reduce or eliminate most of the complexity and unfair impact of the AMT as currently imposed:

1. Increase and index for inflation the AMT brackets and exemption amounts, and eliminate phase-outs.
2. Eliminate the standard deduction and personal and dependency exemptions as adjustments to regular taxable income in calculating AMT.
3. Eliminate miscellaneous itemized deductions as an adjustment to regular income tax so that middle income taxpayers are able to deduct such items as employee business expenses for AMT.
4. Eliminate the AMT medical expense adjustment so that middle income taxpayers are allowed the same amount of medical expenses for both regular tax and AMT.
5. Eliminate state and local income, and other taxes as an adjustment.
6. Allow tax credits enacted to promote important public goals—such as the low-income tax credit, tuition tax credits, etc.—to be credited against AMT liabilities.
7. Exempt all taxpayers with regular tax AGIs under \$100,000 from AMT.
8. Have only one AMT tax rate and set that rate to below the third lowest regular tax rate of 25 percent.
9. Require the impact of AMT on future tax legislation, i.e., whether the intended tax benefits of any change are negated by the AMT regime, to be reported with the revenue impact of proposed legislation.
10. Allow a minimum tax credit for *all* AMT, not just AMT attributable to deferral preferences in order to place the individual AMT on parity with the corporate AMT.

¹¹ Aaron Douglas Law v. Commissioner, T.C. Summary Opinion 2003–159.

11. Liberalize the capital loss limitation rules when calculating AMT associated with incentive stock option (ISO) transactions (e.g., specifically allow a negative basis adjustment for ISO differences to be ordinary rather than capital loss).
12. Eliminate the definition of “qualified housing interest” and allow all deductible residence interest as a deduction for AMT.
13. Exclude AMT from the estimated tax penalty.

HOW THE ALTERNATIVES CONTRIBUTE TO SIMPLIFICATION AND FAIRNESS

AMT was created to promote overall fairness, but it now creates hardships and complexity for many taxpayers who have not used “tax preferences” to lower their taxes. Unaware of these rules and completing their returns without professional assistance, these taxpayers file unwittingly inaccurate returns, causing confusion, errors, and increased revenue collection costs. The impact of inflation on unindexed AMT tax brackets and exemptions brings more lower-income taxpayers into the AMT regime.

The AMT adds another layer of complexity to the existing set of limits and controls on itemized deductions and the use of personal and dependency exemptions. Itemized deductions are already reduced by: (1) the 2 percent of AGI miscellaneous itemized deduction disallowance; (2) the 7.5 percent of AGI medical expense disallowance; (3) the \$100 and 10 percent of AGI casualty loss disallowance; (4) the 50 percent disallowance for business meals and entertainment; and the 20 percent to 50 percent of AGI limitation on charitable contributions; and (5) the overall 3 percent of AGI adjustment. Similarly, the phaseout of personal and dependency exemptions already affects high-income taxpayers.

State income taxes vary considerably. Many taxpayers become subject to AMT *solely* because they live in high tax states (particularly California, New York, the District of Columbia), but a similarly situated taxpayer in Texas, a state which imposes no income tax, would not be subject to AMT. Paying high state taxes is not a “tax dodge” that the AMT was originally created to circumvent.

Allowing regular tax credits—enacted to promote important tax policy goals—to offset AMT tax liability retains the incentives intended when the credits were created, simplifies compliance, and increases the perception of fairness.

Increasing and indexing for inflation the AMT brackets and exemption amounts will subject fewer lower- and middle-income taxpayers to the AMT and its associated problems, and return the AMT to its original purpose—ensuring that high-income taxpayers pay a minimum amount of tax on their economic income.

CONCLUSION

Repealing the individual AMT altogether would eliminate all the compliance and enforcement problems associated with it. However, if outright repeal is not possible, adjusting its impact with the proposed alternative solutions would at least return the AMT to fulfilling its original purpose and relieve the disillusionment of the many taxpayers who do not see themselves as wealthy and believe they are being punished unfairly.

Simplification of the tax laws is a high priority of the AICPA. We have worked closely with the American Bar Association and the Tax Executives Institute to jointly identify specific proposals for simplification. Similarly, we have released a study entitled, *Understanding Tax Reform: A Guide to 21st Century Alternatives*, September 2005.¹² Our study discusses how many of the goals of tax reform can be achieved by modifying the current income tax system through significant simplifications. Some of the more important proposals to reduce administration and compliance costs are discussed.

The IRS released updated statistics in February 2006 indicating that the tax gap is about \$345 billion. We believe tax simplification can play a significant role in helping to reduce the overall tax gap, as simplification would (1) result in fewer errors on tax returns and (2) reduce taxpayer susceptibility to the marketing of abusive tax shelters.

Thank you for the opportunity to share these views with you.

Chairman NEAL. Thank you very much, Mr. Walloch.
Mr. Lifson.

¹² Available online at <http://www.aicpa.org/taxreform/>.

STATEMENT OF DAVID A. LIFSON, PRESIDENT-ELECT, NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, NEW YORK, NEW YORK

Mr. LIFSON. Mr. Chairman, Ranking Member English, and distinguished Members of the Subcommittee, thank you for inviting me to testify today about the AMT for individual taxpayers.

As the President-Elect of the New York State Society of CPAs, the first and oldest association of CPAs in the United States, I speak proudly to offer the views of our diverse membership and the public we serve.

Perhaps no specific element in our nation's tax code exemplifies the snowball effect of clutter better than the AMT. The AMT, which is owed when tax computed using the broader AMT tax base exceeds the regular tax, was introduced in 1969 to ensure that very high income individuals pay some tax.

At the time, Congress was outraged that some had figured out how to juggle the code's matrix of deductions, credits, exclusions and exemptions, combined with rate tables and filing status choices, to completely eliminate their Federal income tax liability.

Today, the AMT may ensnare a few high income taxpayers, although not generally for the loop hole avoidance reasons originally intended. In doing so, it creates an unwelcome combination of tax and mind boggling complexity and confusion inflicted on the people that pay most of the income tax.

This year, we estimate that about half of the American families will earn less than \$50,000, and will pay virtually no income tax at all, and the other half of the families will need to worry about AMT.

Calculation of the AMT requires a huge amount of work. The AMT forces people to calculate their tax two or even three times each year as they prepare their tax returns, just to get the right number. Is that fair?

Can you imagine doing nothing and forcing most people who pay most of the income tax to calculate their tax for the current year twice, and in many cases, re-calculate their tax a third time for last year to see if their state income tax refund from last year is taxable or not this year.

All this just to meet their civic responsibility? Let's face it. Once should be enough.

Consider that only 20,000 people paid the AMT in 1970, and that without legislation, about 33 million people should be affected just 3 years from now. Why are so many people, why are so many taxpayers, why are so many families now affected by the AMT?

There are three key root causes. State income taxes, local property taxes, and other non-Federal taxes.

The AMT is in substance predominately a secret tax on the portion of our income paid over as taxes to state and local governments to provide community services, such as schools, public safety, and low income household support.

We acknowledge that to a lesser extent, it also quietly takes back tax savings from family tax relief mechanisms and benefits built into the regular tax system, and deductions that might otherwise be allowed relating to the production of gross income.

There are several easier ways to implement this tax policy directly in the regular tax system. The AMT should be re-named the “archaic minimum tax.” It no longer serves its purpose.

You know the problem. There are countless examples, and we have provided a few to illustrate the point. We have them here at the panel. I hope you will review all of the examples with your staff that we have submitted.

Our examples submitted in our written testimony were compiled from hundreds of similar examples for the 2006 income tax year to illustrate how AMT is affecting average Americans who pay income tax.

Something needs to be done. We think repeal of the AMT would be the wisest thing to do. There are several ways to change the regular tax system to tax the same higher incomes in a more transparent way.

People trust things, especially tax systems that they understand. Our Federal income tax system needs trust, and fixing the AMT is an important step in restoring faith in the American tax system. This is the same faith that is needed to close the over \$300 billion annual tax gap.

The New York State Society of CPAs has been working intensely on solutions to obviate the need for an AMT and reform our national tax code. We can help you with several feasible approaches to this goal. Just ask.

If not repeal, then a major reform in the AMT is needed. Increasing and indexing the AMT exemption would remove most Americans from this needlessly complex burden and there are dozens of other potential fixes, but please do something.

While we believe it is time for an overhaul, patch, if you must. Thank you.

[The prepared statement of Mr. Lifson follows:]

Prepared Statement of David A. Lifson, President-Elect, New York State Society of Certified Public Accountants, New York, New York

Mr. Chairman, Ranking Member English, and distinguished Members of the Subcommittee: Thank you for inviting me to testify today about the Alternative Minimum Tax for individual taxpayers. As the President-Elect of the New York State Society of CPAs, the first and oldest professional association of CPAs in the United States, I speak proudly to offer the views of our diverse membership and the public we serve.

Perhaps no specific element in our nation’s tax code exemplifies the snowball effect of clutter better than the alternative minimum tax. The AMT—which is owed when tax computed using the broader AMT tax base exceeds the regular tax—was introduced in 1969 to ensure that very high-income individuals pay some tax. At the time, Congress was outraged that some had figured out how to juggle the Code’s matrix of deductions, credits, exclusions and exemptions combined with rate tables and filing status choices to completely eliminate their Federal income tax liability.

Today the AMT may ensnare a few high-income taxpayers, although not generally for the loophole avoidance reasons originally intended. In doing so, it creates an unwelcome combination of tax and mind-boggling complexity and confusion inflicted on the people that pay most of the income tax—Americans with an income in the top 1%. They paid nearly 40% of all these taxes in 2004. Over half of all taxpayers in the same year earned less than \$45,000 and paid about 3% of the tax collected. This year we estimate that most American families will earn less than \$50,000 and will pay virtually no income tax at all, so it is critical to address a problem that now could affect the other half of the taxpaying families in this country.

Calculation of the AMT requires a huge amount of work. The AMT forces people to calculate their tax two or three times each year as they prepare their tax returns, just to get to the right number. Is that fair? Can you imagine doing nothing and

forcing most people who pay most of the income tax to calculate their tax for the current year twice, and in many cases re-calculate their tax a third time for last year to see if their state income tax refund from last year is taxable or not this year . . . all this, just to meet their civic responsibility? Let's face it; once should be enough!

Consider that only 20,000 people paid the AMT in 1970, and that without legislation about 33 million people should be affected just 3 years from now. Why are so many taxpayers now affected by the AMT? There are three key root causes: state income **taxes**, local property **taxes** and other non-Federal **taxes**. The AMT is in substance, predominately a secret tax on the portion of our income paid over as taxes to state and local governments to provide community services such as schools, public safety and low income household support. To a lesser extent, it also quietly takes back tax savings from family tax relief mechanisms and benefits built into the regular tax system, and deductions that might be otherwise allowed relating to the production of gross income. There are several easier ways to implement this tax policy directly in the regular tax system. The AMT should be renamed the *Archaic* Minimum Tax. It no longer serves its purpose.

You know the problem . . . there are countless examples and we have produced a few to illustrate the point.

How does this unexpected result occur? Mechanically the two main reasons are rate creep and inflation. The AMT was created when the maximum regular tax was at 50%, 2½ times the 20% AMT rate. Countless rate changes later, the current maximum regular rate of 35% is only a quarter higher than the 28% AMT rate, which itself is an indirect legacy of the Tax Reform Act of 1986. Furthermore, since the mid-1980s, the regular income tax components have generally been indexed, or automatically adjusted, for inflation—but not the AMT. Over 20 years, these changes, largely enacted for different tax-policy reasons, have made a huge impact on how the regular tax and the AMT affect a given taxpayer. The difference between the regular tax and the AMT is further exaggerated because tax reductions, such as the child tax credit, often reduce the regular tax but do not impact the AMT. For all these reasons, each year more and more taxpayers find that their AMT computation exceeds their regular tax. Many individuals earning economically middle-incomes today are high-income individuals for tax purposes, making AMT a kind of “tax out of time.”

Lawmakers know this is a serious problem, and from time to time, they attempt to make quick fixes to match AMT rates to contemporary realities. Eliminating the AMT at once would prove costly: \$600 billion over 10 years, according to a Congressional Budget Office report.¹ And there may also be institutional resistance to stanching a reliable revenue source; AMT currently rakes in about \$18 billion. It is not surprising, then, that alterations to the AMT exemption have been piecemeal and often temporary.

Lawmakers have raised the AMT exemption several times since 1978. Congress in 2001 determined that an individual (single, head of household) with an adjusted gross income of \$35,750 was wealthy enough to fall into the AMT. The Jobs Growth and Tax Relief Reconciliation Act of 2003 raised that figure to \$40,250 (while setting the exemption at \$58,000 for joint filers and surviving spouses, and \$29,000 for married individuals filing separately), which reverts to the 2001 level this year if Congress doesn't move to extend the AMT exemption.

Some have questioned even these higher exemption figures as an unrealistic anachronism. Bart Fooden and Lawrence Shoenthal, both CPAs who have written about AMT, wonder how a single parent could expect to feed, clothe, shelter, and medically provide for a family of five and also pay the AMT, with such a relatively low exemption.²

However, problems that are more fundamental vex the AMT. Its characterization of deductions and exemptions as “loopholes” can have the unfortunate appearance of punishing higher-income individuals (though not the highest in today's terms) for earning a living. State and local tax deductions, miscellaneous itemized deductions, and personal exemptions add up to trigger the AMT. This has obvious ramifications for those who live in high-tax areas or where the cost of earning a living is onerous, making AMT a “tax out of place.”

The AMT undermines the usefulness of deductions for some individuals who deign to employ them. As Fooden and Shoenthal point out, if an individual pays a lawyer a fee for collecting back wages, the legal fee is a miscellaneous deduction. But under

¹ CBO Revenue and Tax Policy Brief No. 4, “The Alternative Minimum Tax,” April 15, 2004; <http://www.cbo.gov/showdoc.cfm?index=5386&sequence=0#F3>.

² B. Fooden and L. Shoenthal, “A Closer Look at the AMT,” *The Trusted Professional*, April 1, 2005.

AMT, that fee, a cost of earning income, is no longer an expense; the deduction is negated. So if an individual pays a lawyer \$300 for collecting \$1,000 of back pay, netting \$700, the AMT taxes the individual on the full \$1,000.

Unfairness of the AMT cuts across income lines. Look at the simple case of an individual who earns interest income of \$100 from his rent security account, and after an \$80 administrative fee, is sent a check for \$20. If this individual is in the AMT, the tax on this \$20 will be \$28 (28% of the \$100 with no deduction for the \$80 cost). This is a tax rate of 140%. Similarly, an investor who earns \$10,000 from his investments and pays \$8,000 in investment fees and expenses nets \$2,000. If he is in the AMT, his tax on the \$2,000 is \$2,800, also a tax rate of 140%.

While the AMT affects a majority of individuals and families who earn more than \$100,000, its impact can be potentially damaging to others, such as retirees on a fixed income. For example, an employee who was compensated by his or her company in qualified stock options, because it had no cash to pay salaries, could owe taxes, even if the exercised stock option produced no regular taxable income.³ Another aspect of the AMT is that it not only increases the complexity of the tax law, but also dramatically increases the compliance costs. The average time to complete an individual tax return has been estimated as 6 hours and 40 minutes. **Is this for a tax return with the AMT, without the AMT or just the AMT form?** However, it is not only those who will be required to pay the AMT, who must fill out AMT forms, it is anyone who may be required to pay.

The instructions for the form 6251 (Alternative Minimum Tax—Individuals), under “Who Must File” begins as follows:

- **Attach form 6251 if any of the following statements are true:**
- **form 6251 line 31 is greater than line 34.**

There are only 35 lines on form 6251. So, yes, you must complete virtually the entire form, with all of its detailed calculations, in order to determine whether you even have to file the form! And this is without regard to whether or not you are actually liable to pay any AMT tax!

In May 2001, Congress’ Joint Economic Committee estimated that 4.4 million taxpayers filed the form, while only about 880,000 had to pay additional taxes. The JEC estimates that compliance costs were \$360 million, while the tax generated \$4 billion in revenue. This rate of 9% of costs as compared to revenue is more than 5 times higher than the 1.6% rate of preparation costs to revenue that pertains to the rest of the income tax.⁴

Finally, the GAO calculates that in 1998 as few as 14,000 taxpayers went from paying no tax to paying some tax because of the AMT. Furthermore, in 1998, per the Joint Economic Committee, only 3,572 of the individuals paying AMT had high incomes (earned \$200,000 or more). In most cases the AMT merely increased the burden on people already paying tax, and did so in a complex, arbitrary, and unpredictable way. It seems highly questionable, from a tax policy point of view, to subject tens of millions of taxpayers to the complications of the AMT in order to collect tax from 14,000 people.

The NYSSCPA believes that one of the reasons Congress has been unwilling to address the AMT issue is that they are given hypothetical examples and mountains of statistics to analyze and find it difficult to personalize the issue and recognize their constituents in the data. So what kind of taxpayer paid into the AMT in 2006? You might be surprised. Here are some examples:

1. John is a single parent—the Head of Household—with four children. He works as an engineer and makes \$78,000. Last year, he also had \$1,000 of interest income on hard earned savings and pays \$4,800 in state and local income tax. John rents his home, so he does not pay property tax. Still, under these circumstances, John’s regular tax was \$9,095 but his alternative minimum tax was \$9,490. The end result? John—a non-homeowner earning \$78,000 a year with four kids—paid \$395 in AMT and ended up in the AMT bucket with the “wealthy.”

2. Another example: Mary has two children and is also a Head of Household. She is a freelance commercial director, making \$95,000 a year. But Mary still struggles

³In addition to the references cited in this section, see R. Harvey and J. Templaski, “The Individual AMT,” *The National Law Journal* (September 1997), pp. 453–73; Testimony of Thomas M. Sullivan, Chief Counsel for Advocacy, U.S. Small Business Administration, to U.S. House of Representatives Committee on Small Business, July 23, 2003, http://www.sba.gov/advo/laws/test03_0723.html; “What tax cut? Meet the AMT,” CNNMoney, http://money.cnn.com/2004/02/25/pf/taxes/amt_stories/; and *Comments on Tax Simplification*, NYSSCPA Tax Simplification Task Force, May 27, 2003, http://www.nysscpa.org/commentletter/task_simplification.doc.

⁴The Alternative Minimum Tax For Individuals: A Growing Burden (Joint Economic Committee Study, May 2001), <http://www.house.gov/jec/tax/amt.htm>.

to make ends meet. She lives in Long Island, so she pays extremely high state income and property taxes; approximately \$14,000 a year. She had \$8,000 of mortgage interest last year and one of her children was diagnosed with diabetes, forcing her to pay \$15,000 in medical fees. Mary is self-employed, so she does not have health insurance. The result? Mary's regular tax was \$7,898 and her alternative minimum tax was \$8,792. She therefore had to pay \$894 in AMT. The lesson sent by the government? Don't have a sick child or choose to own a home in an area with services and fully funded schools or you will pay into the AMT.

3. Now let's look at Steve and Asha, a married, working couple with four children living in New York City. Steve works in IT as a computer technician at a nonprofit, making \$64,000 a year. Asha is a social worker making \$42,000 a year. Steve and Asha have modest savings and earned approximately \$3,000 in investment interest last year. Living in New York City also means that this family paid high state and local income and property taxes—about \$16,000. The couple paid approximately \$11,000 on a home mortgage last year and made charitable contributions totaling \$2,000. But Steve and Asha—both of whom make modest wages and have four children to raise—fell into the AMT last year; their regular tax was \$8,275 and their alternative minimum tax was \$8,697, leaving them with an AMT balance of \$422.

4. Then there is Diane, a divorced schoolteacher with two children. Diane earns \$60,000 a year and had investment income of \$26,000 on assets received in a divorce. Her IRA deduction in 2006 was \$3,000 and the state and local income and property taxes on her house came out to \$15,000. She had a mortgage interest of \$10,000 and made charitable contributions worth \$500. The unreimbursed expenses she incurred as a teacher, along with school supplies, and some legal and other fees, totaled \$4,000. Diane's regular tax was \$6,673 and her alternative minimum tax was \$7,800, leaving her with an AMT bill of \$1,127. It may not sound exorbitant, but that amount is staggering in relationship to her total income and the net amount she was left with at the end of the year after providing for her children.

5. My last example is Sharon, a single mother with one child. Sharon works and earns \$50,000 a year. In 2004, she received a one-time \$500,000 taxable settlement from a lawsuit. To receive that settlement, she had to pay legal fees of \$190,000, bringing her net income from the settlement to \$310,000. Regular Federal taxes on the settlement were approximately \$105,500, and state and local income taxes were \$52,000, leaving her with \$152,500. Then, because the AMT does not give a deduction for either legal fees or state and local taxes, she paid an additional \$39,500 of AMT tax, reducing her settlement amount to \$113,000. Maybe it is no wonder that legal settlements keep skyrocketing: the recipients get to keep so little of it. Looked at in another way . . . the lawyers and the IRS **each** got more out of the settlement than Sharon did!

CONCLUSION

Our examples submitted in this testimony were compiled from hundreds of similar examples for the 2006 income tax year to illustrate how the AMT is affecting average Americans who pay income tax. Something needs to be done.

We think repeal of the AMT would be the wisest thing to do. There are several ways to change the regular tax system to tax the same higher incomes in a more transparent way. People trust things . . . even tax systems . . . they understand. Our Federal income tax system needs trust and fixing the AMT is an important step in restoring faith in the American tax system. This is the same faith that is needed to close the over \$300 billion annual tax GAP. The New York State Society of CPAs has been working intensely on solutions to obviate the need for an AMT and reform our national tax code. We can help you with several feasible approaches to this goal, just ask.

If not repeal, then a major reform to the AMT is needed. Increasing and indexing the AMT exemption amounts to a figure much larger than today would remove more Americans from this needlessly complex burden.

Please, do something. While we believe it is time for an overhaul, patch if you must.

Chairman NEAL. Thank you, Mr. Lifson.
Mr. Nixon.

**STATEMENT OF JON A. NIXON, CPA, PARTNER, KATZMAN
WEINSTEIN & CO., LLP, BETHPAGE, NEW YORK**

Mr. NIXON. I thank Chairman Neal and Ranking Member English for offering me the opportunity to testify before the Ways and Means Subcommittee on Select Revenue Measures.

I am especially pleased to testify before the Congress on a topic as important and pressing as the AMT.

My name is Jon Nixon. I practice as a CPA professional in New York State, and much of my practice focuses on small businesses and small business men and women.

In my years of helping these small businesses comply with the tax code, I have seen a clear trend in the AMT, where the individual AMT is increasingly encroaching upon taxpayers and robs them of the important business incentives Congress has enacted through the years.

Most often, when I talk about the individual AMT, we obviously think about its effect on individuals, but as I see every day in my practice, individuals are also small businesses.

The great majority of small businesses that I see are held in pass through entities such as partnerships, limited liability companies, or S corporations, or operated as a sole proprietorship.

In fact, for the tax year 2004, according to IRS, more than 7 million individual returns reported net income or losses from partnerships and/or S corporations; over 20 million returns included a Schedule C, showing net income or losses from a sole proprietorship.

Each of these structures does not pay a business level entity tax, but is taxed at the individual level.

The reason most small businesses prefer this type of tax structure is to avoid paying two levels of taxes, one at the corporate level and then again at the owner level.

In fact, Congress enacted the S corporation and partnership rules for just that reason, to eliminate this double tax burden on small businesses.

Like many of the tax incentives Congress has enacted for small businesses, the individual AMT has started to eat away at the effectiveness of these provisions.

As I mentioned, many small businesses are set up as pass through entities. The term "pass through" refers not to assets distributed to the owner, but instead, to the portion of the business' income, losses, deductions or credits that is reported to the owner on Schedule K-1, and is transferred to their individual tax return.

Small businesses operating as a sole proprietorship receive essentially the same treatment. These taxpayers report their items of business income, losses, deductions and credits on Schedule C of their 1040. It is at this point that their business income mingles with personal items unrelated to business on their sole proprietor's tax return.

For the small businessowners, their individual tax is their business tax. For these owners of small businesses, if their individual return is subject to the AMT, then their business income becomes subject to the AMT.

As I mentioned, most small businesses must report their business income on their individual return. Many of these businesses

become subject to the individual AMT. I know that other witnesses will discuss the unfairness of the AMT as it affects individuals, and I agree with them.

There are aspects of the individual AMT few people talk about and that is how the AMT takes business incentives away from businessowners.

For example, Congress has long supported the business incentive known as the research and development credit, but if a small business conducts research and development and attempts to claim the R&D tax credit, the individual AMT could deny this incentive. This is because most general business credits enacted by Congress are preference items for the AMT, and cannot be used to reduce AMT liability.

This is also true of the work opportunity tax credit which Congress enacted to encourage businesses to hire disadvantaged workers. It is likewise the case with accelerated depreciation.

Congress long ago enacted accelerated depreciation to give businesses an incentive to purchase business equipment. This has long been one of the most powerful tax incentives for helping businesses to grow and to strengthen our economy.

The AMT takes part of this incentive away and the list goes on.

In closing, let me paint a picture for you of a typical small business which could be a client of many of us on this panel.

Joe Smith started his business, a small restaurant, 10 years ago. He operates his business as a sole proprietorship by working 80 hours weekly and making personal and financial sacrifices. Joe and his wife and children have built this business into a moderately successful business enterprise.

The Smith family is currently subject to the AMT. The restaurant employs 10 people, five of whom are work opportunity credit eligible employees.

Joe would also like to modernize and expand his restaurant so he can hire even more people from the community. Unfortunately for Joe, because he pays the AMT, he will not get to claim his work opportunity credit on the five employees he hired. He will not claim it on any new employees he hires either. Joe will not get to claim the FICA tip credit for his tipped employees.

Joe cannot claim accelerated depreciation under the 200 percent declining method on the new furniture, fixtures and equipment he purchases for his restaurant expansion. Instead, his depreciation deductions are limited by the AMT.

Joe illustrates how Congress gives benefits to small businesses with the one hand and then takes them away with the other.

As you consider ways to fix the AMT, please remember to fix it for small businesses also.

I thank the Committee for the opportunity to share these views, and I look forward to your questions.

[The prepared statement of Mr. Nixon follows:]

Prepared Statement of Jon A. Nixon, CPA, Partner, Katzman Weinstein and Co., LLP, Bethpage, New York

Introduction

First, let me thank Chairman Neal and Ranking Member English for offering me the opportunity to testify before the Ways and Means Subcommittee on Select Rev-

enue Measures. I am especially pleased to testify before the Congress on a topic as important and as pressing as the Alternative Minimum Tax.

Much of my practice focuses on small businesses and small business men and women. In my years of helping these small businesses comply with the tax code, I have seen a clear trend in the AMT. The individual alternative minimum tax is increasingly encroaching upon these taxpayers and robs them of the important business incentives Congress has enacted through the years.

How the Individual AMT Affects Small Businesses

Most often when we talk about the individual alternative minimum tax, we obviously think about its affect on individuals. But as I see every day in my practice, individuals are also small businesses. The great majority of small businesses that I see are held in pass-through entities such as partnerships, limited liability companies, or S corporations, or operated as sole proprietorships. In fact, for tax year 2004, according to the Internal Revenue Service more than 7 million individual returns reported net income or losses from partnerships and/or S corporations and over 20 million returns included a Schedule C showing net income or losses from a sole proprietorship. Each of these structures does not pay a business-level entity tax but is taxed at the individual level.

The reason most small businesses prefer this type of tax structure is to avoid paying two levels of taxes, one at the corporate level and then again at the owner level. In fact, Congress enacted the S corporation and partnership rules for just that reason, to eliminate this double tax burden on small businesses. But like many of the tax incentives Congress has enacted for small businesses, the individual AMT has started to eat away at the efficacy of these provisions.

As I mentioned, many small businesses are set up as "pass through entities." The term "pass through" refers not to assets distributed to the owner, but instead to the portion of the business's income, losses, deductions or credits that is reported to the owner on Schedule K-1 and is shown on the individual's income tax return.

Small businesses operating as sole proprietorships receive essentially the same treatment. These taxpayers report their items of business income, loss, deduction and credit on Schedule C of their Form 1040. It is at this point that they mingle with personal items unrelated to the business on the sole proprietor's tax return.

So, for most small businessowners, their individual tax is also their business tax. For these owners of small businesses, it is their business activity which determines whether or not they pay the AMT. For these small businesses, the individual AMT is also the business AMT.

How the Individual AMT Takes Away Business Incentives

As I mentioned, most small businesses must report their business income on their individual returns. Many of these businesses are subject to the individual AMT. I know that other witnesses will discuss the unfairness of the AMT as it affects individuals and I agree with them. But there are aspects of the individual AMT few people talk about, and that is how the individual AMT takes business incentives away from businesses.

For example, Congress has long supported the business incentive known as the R&D tax credit. But if a small business conducts R&D and attempts to claim the R&D tax credit, the individual AMT could deny this incentive. This is because most general business credits enacted by Congress are "preference items" for the AMT and cannot be used to reduce AMT liability.

This is also true of the Work Opportunity Tax Credit which Congress enacted to encourage businesses to hire disadvantaged workers. It is likewise the case with accelerated depreciation. Congress long ago enacted accelerated depreciation to give businesses an incentive to purchase business equipment. This has long been one of the most powerful tax incentives for helping businesses to grow and to strengthen our economy. The AMT takes part of this incentive away. And the list goes on.

Conclusion

So in closing, let me paint a picture for you of a typical small business which could be a client of many of us on this panel.

Joe Smith started his own business, a small restaurant, 10 years ago. He operates this business as a sole proprietorship. By working 80-hour weeks and making personal and financial sacrifices, Joe and his wife and children have built this business into a moderately successful business enterprise. The Smith family is subject to the AMT.

The restaurant employs 10 people, five of whom are WOTC eligible employees. Joe would also like to modernize and expand his restaurant so that he can hire even more people from the community.

Unfortunately for Joe, because he pays the AMT, he won't get to claim his WOTC credit on the five employees he hired. He won't claim it on any new employees he hires either. Joe will not get to claim the FICA tip credit for his tipped employees. Joe cannot claim accelerated depreciation under the 200 percent declining balance method on the new furniture, fixtures and equipment he purchases for his restaurant expansion. Instead his depreciation deductions are limited by the AMT.

Joe illustrates how Congress gives benefits to small businesses with one hand and takes them away with the other. As you consider ways to fix the AMT, please remember to fix it for small businesses too.

I thank the Committee for the opportunity to share these views and I look forward to your questions.

Chairman NEAL. Thank you very much, Mr. Nixon. I think all of us would agree that the testimony you have offered today will support and put a real face on the challenge that confronts the Congress.

Mrs. Rauh, many of us talk about the estimated 23 million taxpayers to be hit by AMT in 2007, which is up from only 4 million in 2006, but we did not really know who that group is, until we heard from all of you today.

You are one of those 23 million. The only reason that you know it is because you are a tax professional, and you gauge your liability throughout the year.

For the rest of the 23 million, the AMT will come as an unwelcome surprise if the Congress does not act soon.

Certainly, your family was not the target of Congress when it first enacted the AMT decades ago. Has the fact that you are now being hit by AMT changed the way you interact with your clients, now that you have firsthand experience with some of the same problems they face?

I heard that by way of private conversation earlier, and perhaps you could comment publicly.

Ms. RAUH. A lot of my clients are in AMT now that it is not being indexed. We have done planning for them not to pre-pay things, so they do not go into AMT, but explaining to them why they are in AMT. I used to be able to do that, and really at this point, there is no way to explain it.

My clients, the clientele we have, the AMT itself is increasing the percentage of clients we have. However, the percentage below \$150,000 of adjusted gross income is going up by 14 percent, while the clientele above \$150,000, the percentage in AMT is decreasing.

It is in fact hitting everybody below \$150,000. As far as I am concerned, that is not the middle class any more. The \$150,000 with two incomes and several children, college tuition, some of these people are barely getting by.

It sounds like a lot of money, but it really is not.

Chairman NEAL. Thank you. Mr. Day, I think you have identified yourself as another one of those unfortunate 23 million, and thanks certainly for being here today.

You mentioned in your testimony that the AMT is like a "fire call," except you just do not have the right training for the emergency.

Our tax professionals here today have told us that very few have the right training for the complex AMT.

Can you tell the Committee whether you still prepare your own taxes and if so, will you attempt the AMT calculation?

Mr. DAY. Mr. Chairman, first I want to thank you for your support last year to fire fighters, as far as our retirees' relief on the health insurance. I had to get that little plug in for you, sir.

Chairman NEAL. We will take it.

Mr. REYNOLDS. I object.

[Laughter.]

Mr. EMANUEL. Can we strike these words from the record, please?

Mr. DAY. Mr. Chairman, I no longer do my own taxes. I do actually compensate a friend of the family to do them.

The problem with this, as I see it, relating to the middle class and fire fighters, and I am just a basic commonsense kind of individual, I think down here in D.C., there tends to be a lot of finger pointing, the blame game.

This has been around for a pretty good long time. I think we need to stop the finger pointing, and I give it the analogy of a leaky roof. I am not a roofer. I am a fight fighter. I go up on roofs, but I do not go up and replace them. I tend to put holes in them.

My point is do not keep climbing back up on the same roof year after year to put a little patch on it. At some point, Congress has the responsibility and obligation to the taxpayers and fire fighters in this country to fix what is woefully wrong.

I am not an expert. I sit between CPAs. I am just an average Joe. I would strongly suggest that we roll up our sleeves down here in D.C. as elected officials and fix what is wrong once and for all.

Thank you, sir.

Chairman NEAL. Thank you very much, Mr. Day. I will now yield to Mr. English to inquire.

Mr. ENGLISH. I thank the Chair. This has been a very enlightening panel in terms of your testimony. It is stunning to think that many of the people we are talking about here are people who from a policy standpoint are routinely regarded as rich within the Washington Beltway. You have given us a real splash of cold water and some excellent insights.

Mr. Nixon, I wanted to follow up on your testimony. You testified that the benefits of accelerated depreciation for S corporations and partnerships may be taken away by the individual AMT.

Could you walk us through why the individual AMT inhibits businesses from claiming business tax incentives and specifically, can you give me an insight on how a tax benefit can be denied once it flows through to the individual?

Mr. NIXON. The accelerated depreciation when an individual is subject to the AMT is recalculated to a much longer period of time to depreciate that asset. The advantage of the accelerated depreciation is then taken off the table.

That is one particular item that the AMT cuts into as the businessowner is looking to invest capital and buy something and depreciate it quickly.

The other is that some of the credits that a businessowner flows through to his individual return, as he is hit with the AMT liability, these credits are not allowed to reduce his taxable income below or tax below the AMT tax liability.

These credits that he may receive at the business level that flow through to him individually are then postponed and have to carry forward to a subsequent year, when in fact he is not in an AMT liability, which that could be some time long term in the future.

That is how the businessowner is affected by his income flowing through to this individual return and then thereby these credits being stalled and not allowing him to take advantage.

Mr. ENGLISH. That in turn can inhibit his investment decisions, his or her investment decisions and job creating behavior.

Mr. NIXON. Yes.

Mr. ENGLISH. Let me just say I am very grateful for Mr. Walloch and Mr. Lifson and their testimony saying that in principle, they think this tax should be flat out repealed.

There has been discussion in Congress about how we can fix the AMT. One of the preferred ways is simply by shifting the AMT burden.

Mr. Nixon, does shifting the AMT burden but leaving the AMT in place, solve the problems of complexity and unfairness that this panel has explored today, and will not taxpayers still have to calculate their taxes twice?

Mr. NIXON. Shifting the AMT is not going to be the answer. The complexity of the AMT will continue with individuals into the future where you are constantly going to be trying to calculate your income tax liability with taking into consideration the AMT, however way that AMT is going to be shifted. We still have to sit there and calculate those and see if an individual will be subject to the AMT.

We are looking at businessowners who want to make decisions that they feel, they read, they see all these wonderful credits they can get, R&D and tax credits, at the business level, but then they come to the accountants and we as accountants say you cannot get these credits because you are subject to the AMT.

Even if that AMT shifts, you are still going to have those that are going to be subject to the AMT, and thereby defeating the opportunity for the businessowner to take advantage of these credits, especially R&D credits.

Mr. ENGLISH. Mr. Walloch, you were kind of shaking your head. Do you have anything to add on that point?

Mr. WALLOCH. Mr. English, I would second the motion that if you only do a shift, you still have to encounter the Form 6251, the AMT form. It is still complex. You still have to consider it. You have to consider it even if you come out to find the answer is zero.

I think the ultimate best solution is to simply get rid of the AMT.

Mr. ENGLISH. Mr. Lifson, do you have anything to add on that point?

Mr. LIFSON. I would just say that Congress—the AMT was created as part of several steps from 1969 through 1986, to do away with individual tax sheltering activity. It was very effective when it started.

In 1986, you put in passive activity losses and other stop gaps to keep tax sheltering activity from occurring at the individual level. By doing that, the AMT became the archaic minimum tax. It no longer serves its purpose any more than collapsible corpora-

tions do. They have been eliminated from the Code. It is time to get rid of the AMT.

Mr. ENGLISH. That is a powerful statement and whether we call it the "archaic minimum tax" or the "anti-manufacturing tax," I am inclined to agree with you, and I am grateful to all of you for your testimony.

Chairman NEAL. I thank the gentleman. The gentleman from California, Mr. Thompson, will inquire.

Mr. THOMPSON. Thank you, Mr. Chairman. Thank you for holding this hearing today and your longstanding commitment to fixing this egregious problem with the AMT.

I have a question, I guess, for the folks on the left, the preparers. Have you seen an increase in the number of people who have to seek professional help in preparing their taxes because of the AMT?

Mr. LIFSON. I have in that people come in the year after they get the letter from the IRS that they did not calculate the AMT correctly, and that usually drives them from the kitchen table directly to the CPAs, as our fire fighter reported.

Mr. THOMPSON. You have not only people who figure they need your advice before, but then other folks who try to do it themselves and make errors then have to come afterward.

I am assuming there is a penalty that is associated with that many times. The taxpayers are not only bouncing around like a pinball in a pinball machine, they are also having to pay at different stages for different problems.

I also have been told, and it has been anecdotal at this point, that some of the programs, the computer programs for helping people prepare their taxes, have left folks in the lurch as well.

Do you have any experience with that?

Ms. RAUH. I have used one of the over the counter tax programs. Rather than forcing you to calculate the AMT, it says do you want to look at the AMT. If you do not know what the AMT is, there is also a button that says skip AMT. I think a lot of people skip AMT.

Mr. THOMPSON. Thank you all for an excellent job. I just hope, Mr. Chairman, that we can fix this problem and fix it quickly so we do not continue this band-aid approach that we have in the past, which I think leaves taxpayers in even a bigger lurch.

Sometimes we have not done the 1 year fix until after the tax year is actually begun. It is incredibly important that we get this thing solved this year.

Thank you all for coming. Mr. Day, as the father of a fire fighter/paramedic, thanks for your service to your community.

Mr. DAY. Thank you, sir.

Chairman NEAL. I thank the gentleman. The gentleman from New York, Mr. Reynolds, will inquire.

Mr. REYNOLDS. I thank the Chairman. I thank you for holding the hearing and our continued movement on this Subcommittee on seeing if we cannot get a permanent solution.

We have had with this panel today, a very distinguished group, that has presented to us both what I call the "person on the street," the reality that so many do not even know AMT exists, and that their accountants are preparing two sets of forms for them to see

if they comply, and in states like New York, where many of the practitioners come from, and as the witnesses have said today.

The fact that over the counter for those who think they can achieve their tax, they may not even know they have to do a second one to see what the AMT eligibility is.

I have called this a "stealth tax" for a long time. I like the "archaic" or "anti-manufacturing."

The reality is I think most of us in this room know that we have to get rid of this tax in its entirety, rather than picking and choosing winners in it.

For the record, as I understand it, Congress has had a number of chances where we have had a target on trying to get rid of AMT and something happens.

Chairman Neal and the leadership of the Committee on Ways and Means, both sides of the aisle, are committed to try to meet this.

I think when we look at the part I have looked at in the past, if we cannot get permanent solution, we need to make sure we get the patch again to not let middle class get trapped into 23 million more into this bad stealth tax or archaic minimum tax.

As I look at the Budget Committee and the Ranking Member is here now, but as we open up some of our discussion, we need to be careful as we look at what the Budget Committee has done because a reserve fund saying that we want AMT relief but only if the distinguished Committee on Ways and Means identifies offsets by either taxes or on other decisions made in the Congress on offsets of spending that we get there.

As one that was the architect for the 2006 patch, I would have wanted to see a permanent solution, but the patch was something that was a "must do."

We are going to have to work in bipartisan fashion to make sure that we get around the difficulties of pay-go, the difficulties of those who have different goals or do not see the need of AMT relief in a bipartisan fashion to make sure that what is has been in the Chairman's mark, we can actually achieve in legislation at minimum, while we look to fix it.

One of the questions I have, and some of the accountants and maybe Mr. Nixon, you might share a little bit, I would think that when clients are educated on AMT, I know when my constituents are, they are shocked to think that first of all, you actually prepare two run's, so to speak, of what they are going to pay, and two, in high tax states, as many of you are witnesses, and Northern Virginia is becoming a high taxed state, much like Massachusetts, New York, and California, where many of us know clearly well what our constituents face.

We find that they are shocked when they see the type of eligibility they are not able to get under deductions as AMT comes in.

Have you ever seen anyone that thought AMT was a good idea in your accounting practices?

Mr. NIXON. Not necessarily, no. We are finding increasingly more and more that are subject to the AMT purely by the fact that in New York, we live in a state where real estate taxes have gone up substantially, and this is one of the things seen affecting our taxpayers.

To fix it? There has to be ways in which we can try to adjust it. If AMT is to remain, to shift it where some of our middle-income taxpayers are not greatly affected by that, just purely by the fact that some of these particular taxes have increased, and that thereby puts them into the AMT liability.

Mr. REYNOLDS. Does anybody have anything to add to that from the practitioners' standpoint?

Mr. WALLOCH. To answer your specific question, I do not know of a single taxpayer who embraces the AMT. I think the only thing that speaks well of the AMT is it brings in revenue. Taxpayers are not excited about that.

Mr. REYNOLDS. As you practice, and also the witnesses that are both taxpayers and professionals and understand what we are faced with here, I was greatly concerned when I saw with hope that the potential of addressing AMT from a recommendation of the Mack-Breaux Commission would outline a solution, while they attacked how we should go after a permanent repeal of AMT.

They found in their pay schedule to offset the cost to be revenue neutral, eliminating deduction for state and local taxes and mortgage interest deductibility.

Again, I guess I ask what your opinions might be. I would tell you with my background in real estate insurance, my first reaction was over my dead body, coming from a New York taxpayer's standpoint.

Could the panelists maybe share what their thought is of elimination of that?

Mr. WALLOCH. I agree with you that eliminating the state income tax deduction or property tax deduction or eliminating the mortgage interest deduction is not a good way to replace the AMT revenue.

I think there is a whole spectrum of other possibilities that should be explored.

Mr. REYNOLDS. Thank you.

Chairman NEAL. Thank you, Mr. Reynolds. The gentlelady from Pennsylvania, Ms. Schwartz, will inquire.

Ms. SCHWARTZ. Thank you very much. Thank you for putting a personal face on the issue of AMT. I think for many of us who have been reading about this, we are not surprised by what you said by any means. We have heard it certainly from constituents, and we are taking it very seriously. I know the Chairman is. We want to create a long term fix.

I will say we want to do it in a responsible way. That means addressing the concerns and issues that you have talked about for individual taxpayers, and I wanted to sort of just highlight a couple of those issues.

It is a serious effect on our budget and on the national revenues. We want to fix it. I want to say that.

A trillion dollars of repeal, another trillion dollars in debt, which is what has been suggested, we ought to just take the hit and move on. We would like to come up with a more responsible answer, which makes it more complicated.

We could have seen a repeal in any of the last 6 years, and we did not. We are faced with huge debt in this country, not enough revenues.

We are trying to fix it, and we are trying to fix it for the people you are talking about, and certainly the people we represent. I represent a district that we are looking at 60,000 of my constituents being affected next year if we do not do this patch at least for 1 year and hopefully, we can do a more permanent fix.

I am interested in your just fleshing out a little bit, if you may, the issue that is affecting particularly two wage earner families. Maybe we did not anticipate that there would be so many two wage earner families. It particularly affects them, I think you talked about that a little bit when both husband and wife are working, and actually then when they have children.

We are seeking folks who consider themselves very middle class, very middle income. I have a chart here that says—let me first say that experts have said that virtually all married couples earning \$75,000 to \$100,000 a year with two children, will be paying the AMT at the end of this decade if we do not do something about it. That is stunning.

I represent a big city in Northeast Philadelphia, \$75,000 sounds like a lot of money, but we are looking at someone who earns that.

If you live in an area that is sort of high cost of living, there may also be high local taxes and state taxes that may coincide with that, and you anticipate that you would like to send your children to college as well, and you buy a home. You really are obviously not feeling very rich. This is not who we intended to hit with the AMT.

I also just to put another face on it, a chart that says just next year, in 2007, if we do not do something about it, a family with two children, married with two children, the entry point to be affected by the AMT is \$66,114 income. Again, that is pretty stunning.

I can imagine if you live in New York or Philadelphia and some of the big cities, that is really not very, very high income.

I really wanted you to just flesh out, if you may, anything more you might want to say about what we say to these families. Many of you who help them anticipate and predict what they could do to both pay their taxes but to also anticipate what they might do to be able to get the best advantages on taxes, there really is very little they can do, other than getting rid of their mortgage, their kids, their spouse.

Again, you are tax planners and preparers. I think the issue that I have for many of these families is the unpredictability, the fact that they are faced with having to pay an AMT on April 17th that they didn't anticipate.

I think that unpredictability, and I know for small businesses, that is a huge issue, not to be able to predict your tax burden, but for families, it is as well.

Could you speak a little bit both about what else, other than the 1 year patch, which I do expect we will do, but we would like to do it more permanently, any other comments you might want to make about the unpredictability, particularly for families in this sort of \$75,000 to \$100,000 range, that find themselves not feeling terribly rich to be able to meet all their obligations?

Ms. RAUH. That is the exact category I am in. I do not own a house. I do not deduct mortgage interest. I do not deduct real estate taxes. I do not deduct my Massachusetts income taxes.

I take the standard deduction given to me by the IRS. I have three kids. Other than getting rid of, as you said, getting rid of my children, I can do nothing to get out of AMT.

Ms. SCHWARTZ. Which I hope you are not really thinking about.

Ms. RAUH. No, I will keep them. The only one I am getting at this point is from the child tax credit. I am not wealthy. The housing market, although Virginia is much worse than Massachusetts, the housing costs are high.

We have decided to rent. We have no deductions to speak of. The child tax credit and my tuition credit. Seventy-five thousand dollars is not a lot of money. I do taxes for friends and family. When I have to explain this to them next year, they are going to think it is illegal.

Ms. SCHWARTZ. I think we are really very, very interested in working this out. The suggestion that Mr. Day made that we ought to get serious about working this out in a bipartisan fashion, I hope we can ratchet down some of the politics about this, but it is not easy for us to find the revenues to make up for this, or to be irresponsible in adding to the debt.

We take very seriously your situations and the people you represent, and look forward to working it out for the long term.

Thank you.

Chairman NEAL. I thank the gentlelady. I will remind the Members and the panel that we are going to have a series of votes coming up quickly, so if we could move our questions along. I am happy to come back after.

I would like to recognize the gentleman from Georgia, Mr. Linder, to inquire.

Mr. LINDER. Thank you, Mr. Chairman.

Mr. Campbell, you said you got no benefit from the Bush tax cuts, but you just heard Ms. Rauh say she took the child tax credits. Did you not?

Mr. CAMPBELL. No, sir. My children are above the age for child tax credits. The tax credits or deductions that would normally be allowed to me specifically are for college tuition, which I pay, with no financial aid, so I pay full price college tuition.

My family is trying to do that without incurring any debt. Those costs that we pay every year because of AMT, we do not achieve those credits. Actually, not because of the AMT. We do not achieve those because of our adjusted gross income. Therefore, they do not help offset that, and then the tax cuts that were enacted actually lower my regular tax rate, and therefore make me more susceptible to the AMT.

Mr. LINDER. Thank you. Ms. Rauh, you said early on you understood the purpose behind AMT and why it was implemented. Please explain it to us.

Ms. RAUH. Back in the day when there were excessive deductions and tax shelters taken by the very wealthy, they were trying to make the very wealthy pay their fair share.

Mr. LINDER. That really is not true. In 1969, there were 155 people who earned over \$200,000 a year, and because they rudely took advantage of their legal deductions and credits, they had no

tax obligation, and Congress determined that was not fair. They were just doing the legal thing.

Ms. RAUH. Going forward from that time, that is what AMT has been used for, to make sure people with excess deductions, going forward from that point, every adjustment is having to do with some type of excess deduction—

Mr. LINDER. My point is there is no such thing as an “excess deduction” if it is legal.

Ms. RAUH. What they considered to be excess deductions.

Mr. LINDER. Mr. Walloch, you said you thought they should totally repeal individual AMT. Do you distinguish between the individual AMT and the sole proprietorship AMT?

Mr. WALLOCH. No, sir. The individual AMT, if you have some one operating as a sole proprietor, that business—

Mr. LINDER. Is an individual.

Mr. WALLOCH. Is an individual.

Mr. LINDER. The word “individual” really does not mean anything except you should get rid of the AMT entirely itself?

Mr. WALLOCH. No, sir, with all due respect. There is an individual AMT and there is a C corporation AMT.

Mr. LINDER. Thank you. Mr. Chairman, thank you.

Chairman NEAL. I thank the gentleman. Mr. Blumenauer, the gentleman from Oregon, will inquire.

Mr. BLUMENAUER. Thank you, Mr. Chairman. I am pleased that for the first time since I have been in Congress, 11 years now, the adjustment, the repeal, the fix of the AMT is the number one priority of this Committee. It has never happened before.

There has been lots of tax adjustments and priorities and winners and losers. I am pleased with the Chairmanship of Mr. Neal, the keen interest of the Ranking Member, and of the Full Committee Chair and Ranking Member, that for the first time in 11 years, something is going to happen.

I am very optimistic about that.

You hear a lot of loose language of late about the largest tax increase in American history, that is applied routinely to all sorts of things.

I will tell you what the largest tax increase in American history is, it is what is going to happen in the next 10 years if we do not take the advice of this Committee, \$1.8 trillion of a tax increase largely on unsuspecting people.

Although I am optimistic and I am pleased about the hearing, Mr. Chairman, I would like to inquire about one other area of the cost of AMT, that we do not talk about, and that is the cost of compliance.

I am assuming that a number of the people that are represented by our taxpayers here today are going to end up paying somebody about as much to calculate it as the tax itself. Maybe it would only be \$500 or \$1,000, but they are going to pay somebody \$500 or \$1,000 or \$1,500 to calculate it. It is a double whammy.

I would ask, Mr. Chairman, if we could just have brief comments from both the practitioners and the individuals about the hidden hidden cost of the stealth tax, and that is the cost that they are going to pay to try and comply with this horribly mutated tax.

Mr. CAMPBELL. I can start, sir. I can tell you that for my whole adult life, I have prepared my own taxes and consider myself a fairly smart guy who can figure it out.

The first year that I was hit with the AMT tax, I thought I had made mistakes. I thought I had done something wrong because I did not understand how I could possibly be subject to something like that, which caused me to seek professional help to find out where I made my error.

Mr. BLUMENAUER. Accounting professional help?

Mr. CAMPBELL. Accounting professional help.

Mr. BLUMENAUER. I am just checking.

Mr. CAMPBELL. Thank you for that clarification. Seeking the services of an accountant to help me understand where I made that mistake, which turned out in fact not to be a mistake, and subsequently, I have employed that accounting firm every year since because it is just too difficult as an individual, even with the off-the-shelf type of tax programs, to really understand if you are doing it right.

I think someone on the panel mentioned transparency. There is no real transparency in the process, so you do not really know if you are complying or not.

Mr. BLUMENAUER. I know the Chairman is trying to move this along. If we could just have brief comments about the cost of compliance. You had an \$1,000 extra liability.

Mr. CAMPBELL. I do not think it cost me \$1,000 in accounting fees, but certainly it cost me more than I normally would pay.

Ms. RAUH. I am lucky in that I am a CPA. I do my own. The deductibility of the tax practitioner's fee is also an add back to AMT, so it is very circular.

Mr. BLUMENAUER. Any of the other witnesses?

Mr. LIFSON. I would just say I am sometimes questioned as both a member of the American Institute of CPAs and the President-Elect of the State Society of CPAs, why we would not be interested in continuing this confusion in our own self interest.

Our interest is in the quality of the tax system. I would also add that you forgot one piece of cost, and that is the cost of the IRS to administer the AMT, which is also a very imported added cost.

Mr. BLUMENAUER. Mr. Chairman, I assume my time has expired. If we could inquire about the actual costs, additional costs to taxpayers for compliance. I appreciate Mr. Lifson's point about the extra cost to the IRS to administer a very complex item.

Chairman NEAL. I think it is a superb point that you have raised, Mr. Blumenauer.

The gentleman from Wisconsin, Mr. Ryan, will inquire.

Mr. RYAN. Yes. I thank the Chairman. I apologize for not having been here earlier. I was meeting with some constituents back in my office.

I understand there has been some confusion about the Majority's new budget resolution, which we just finished marking up at 1:00 this morning.

When we say that this new budget resolution imposes and budgets for and plans for the largest tax increase in American history, that is true because it does away with all the 2001 and 2003 tax cuts. That is not even including the AMT.

The AMT issue is what I want to talk about. There are absolutely no reconciliation instructions to the Committee on Ways and Means to do anything; anything. That is how you get policy done through a budget resolution.

When you call something a "reserve fund," that is the legislative equivalent of coming to the Floor and passing a resolution that says have a nice day. It sounds good, but it is meaningless. It affects nothing.

These reserve funds are not worth more than the paper that they are printed on because they have no material effect whatsoever.

When you write a budget resolution, a budget resolution is about numbers, and it is about instructions to Committees. The numbers do not lie. The numbers in this budget resolution assume, bank, prepare for, and require in order for the budget resolution to balance, that there is not only no permanent fix to AMT, that there is not even a patch next year.

This year, we have a patch for people filing their tax returns for the 2006 year. This budget does not accommodate, create fiscal space for, or give us instructions with fiscal space to put the patch in place for 2007, let alone 2008.

We will have 23 million people hit next year when they are doing their taxes for the 2007 year, if there is no patch. It goes to 25 million people the year after that.

The problem with the budget resolution, unlike the Senate budget resolution, where they created a fiscal space for a 2 year patch, unlike the White House budget, which has a 1 year patch, the House budget resolution does not have a patch.

Saying it is the policy of the budget resolution that we want to have a patch, have a full time fix, but not having any plan to do it, means there is no plan to do it.

I just think it is really important that we do not mislead people, that we shoot straight, and that we make sure that we do not set false expectations.

This is a bipartisan issue. I know what I said is going to hit some people there. It is a bipartisan problem. It hits Democrat and Republican taxpayers.

If you really want to fix this, you have to create the fiscal space to do it, unless you simply want to have a \$50 billion tax increase this year, or a \$344 billion tax increase, which is to fix it over the next 5 years.

You have to find the \$344 billion to fix it for 5 years. The \$344 billion is not in this budget. The \$50 billion is not in this budget for the patch. Because that is not in there, there is no fix in this budget for the budget resolution.

I was going to ask questions, but I see my red light is on.

Chairman NEAL. I thank the gentleman. I would point out as an alum of the Budget Committee, budget resolutions have been routinely altered on the House Floor, and during my time, we used to call them "dire supplemental emergencies," to move around those figures.

I will recognize Mr. McDermott to inquire.

Mr. MCDERMOTT. Mr. Chairman, I am sure the witnesses are enjoying watching us go at this issue. I appreciate the admonitions of Mr. Ryan.

I have sat on this Committee for the last 6 years while this problem built and built and built. The only thing we talked about here was how we were going to get rid of the inheritance tax.

Let's take the tax off the people on the top, folks. Nobody wanted to pay any attention, and you cannot claim you did not know it was coming, it has been obvious for the last 6 years that this day was going to happen.

If the people in November had not chosen the Democrats, you would still be talking about extending the inheritance tax for the indefinite future, and ignoring this because it has been a trap that has been laid and you let it happen because you want to tear up the tax structure.

I do not know what it is you really want, whether you want a sales tax or a value-added tax, or something. You want to get rid of the progressive income tax. That is very clear. That is why this happened.

There was plenty of opportunity to change this. When you start talking about these tax increases, we could have said—I bet we did say the same things when we passed the budget resolution last year, because if you do not extend those taxes, they are going to end, and the taxes will in fact go up. We all know that.

It is not anything that happened last night that is any different than what happened with all the other budget resolutions.

Mr. RYAN. Will the gentleman yield for a quick clarification?

Mr. MCDERMOTT. I just want to vent a little. After sitting here for 6 years and watching this foolishness, we knew this was going to happen and we talked about it.

Mr. Neal, I got tired of hearing him raise it every time we had a tax bill, he would talk about the AMT. There must be more people in Massachusetts that play in this ballpark than in my state or something. I do not know what it was.

It is not as though you did not know it was coming.

I yield for a clarification.

Mr. RYAN. Last year's budget resolution created the fiscal space for the patch. It actually gave the Committee on Ways and Means the reconciliation instructions and the wherewithal to actually bring a bill to the Floor to do the patch.

Mr. MCDERMOTT. What did they do?

Mr. RYAN. Put a patch in place. You are right. I just want to clarify that, but you are right, we are just kicking the can down the road. We have done it. We have to fix this thing and kicking it 1 year at a time is no way to run this railroad.

This budget resolution does not even kick it down the road 1 year. That is the point I was making.

Mr. MCDERMOTT. We are not done yet. I yield back the balance of my time.

Chairman NEAL. I thank the gentleman from Washington, and I want to agree with Mr. Ryan for the moment. He has described the problem, kicking it down the road.

The gentleman from Illinois, Mr. Emanuel, is recognized.

Mr. EMANUEL. I am also going to address slightly to the gentleman from Wisconsin, you can watch for a little while, get some popcorn and watch this for a second.

[Laughter.]

Obviously, it is sleep deprivation he is operating under from being here until 1:00 in the morning in the Budget Committee, where they marked up a balanced budget that the Democrats provided while expanding health care for children, which would be a first.

The key word was “deception.” Mr. Day, Ms. Rauh, Mr. Campbell, not to address the other three, you can listen also, that is what the AMT has done to you. It was a deceptive practice.

When the AMT was passed—this is also for my colleague from Wisconsin—you agree with this because you have said it before, as other colleagues from Pennsylvania have said it and from upstate New York—the deception that goes on is twofold.

One, the AMT was intended for the wealthiest taxpayers who actually through the tax code ended up paying no taxes, which was never the intention. Then because it was not dealt with from an inflationary standpoint, it has grabbed hard working middle class families, a sales manager, a CPA, and head of the fire fighters.

You were never ever supposed to get hit with the AMT. You had the normal income tax. That was it. That is where the deception begins. I think you would agree.

Mr. RYAN. Yes.

Mr. EMANUEL. The second deception, and this is where he will disagree—I love this soliloquy—

Mr. RYAN. You are doing all the talking.

Mr. EMANUEL. That is what I said, it is a soliloquy. I am having a great time. It is the only time in my house with three little kids I ever get a word in edge-wise, here in the Committee.

[Laughter.]

The President presented a budget and relies, as he said, that we finally get a balance in 2012. How does he do it? A tax increase. Twenty-three million American families get a tax increase called the AMT. That is deception number two.

Mr. RYAN. Will the gentleman yield?

Mr. EMANUEL. No, not yet. I am really enjoying this quiet time alone. I will in a second.

This is a serious issue. What happens here is you have talked about the AMT, the Congressman from Western Pennsylvania has done it. The Congressman from upstate New York has done it.

One year patches are just that, band-aids. We have the opportunity to fix the AMT and provide a tax cut to Ms. Rauh, Mr. Day, and Mr. Campbell. All of them, whether it is \$1,400, \$2,200, that is a tax cut. That is what it is. It is not a fix. It is a tax cut.

To 23 million American families, in Washington, it gets talked as a “fix,” to them it is a vacation for their family, possibly the ability to pay college for their kids without taking out more loans and more debt, or anything else they choose. It is a tax cut.

Mr. RYAN. I was going to agree with you on some things.

Mr. EMANUEL. I will take it.

Mr. RYAN. You are right. Number one, the Bush budget, whatever budget we are looking for clarifies something. The Bush budget has this tax increase kicking in for 25 million people in 2008. It does not have it kicking in for 23 million people in 2007 because the Bush budget has a 1-year patch.

The Democrat Majority budget has the 23 million person tax increase in 2007.

Both budgets here, the White House and Democrat Majority budget, kick in the tax increase. I think the other point you made is correct as well. These are tax increases. 23 million people are going to get hit with a tax increase because this is coming into being, just like your budget plans for all those 2001 and 2003 tax cuts to go away, those are tax increases, too. Marriage penalties, child tax credit—

Mr. EMANUEL. If we address the 1-year issue, we will provide all three of these that are here and the other 23 million folks that they are basically representing in one way or another with a tax cut.

Mr. RYAN. We need more than just 1 year.

Mr. EMANUEL. That is right. Number two, we will provide those ideas. You will have a chance to provide your alternatives or join us and say here is a good way to do it.

A tax cut, an AMT issue, that is wrestled to the ground beyond a 1-year fix, will be a tax cut for 25 to 23 million folks. That we have established today if nothing else.

Thank you, Mr. Chairman.

Chairman NEAL. I thank the gentleman from Illinois. The gentleman from New York, Mr. Crowley, will inquire.

Mr. CROWLEY. Thank you. Thank you for the opportunity from a non-member of the Subcommittee to speak here. Thank you, Mr. Chairman.

The witnesses today have highlighted the fix to AMT must be done as this massive tax increase that will target the nation's middle class and not the rich.

I am pleased that our leadership, Speaker Pelosi, as well as Chairman Rangel, and Subcommittee Chairman Neal, have made fix AMT and providing the middle class with tax relief as the top priority of this Subcommittee, and quite frankly, one of the top priorities if not the top priority of the overall Committee.

I thank all of the witnesses here today, and in particular, the real people that are here. I ask them to make sure that their friends and neighbors know about the coming tax tidal wave on America's working folks, and to have those individuals put more pressure on their Congress.

My friends on the other side of the aisle who led this government quite frankly unhindered for 6 years, did very little, if anything at all, to remedy this growing tax on the middle class of our country.

Even many of my colleagues on this side today still refuse to address the overall situation.

My good friend, Mr. Linder, from Georgia, has said—I am sorry he is not here—that he does not want Congress to act on AMT, and I will quote from a CQ.com article.

His exact quote is “Don't do anything, let it hurt, let them rise up in anger against all of us.”

My friends on the other side, and in particular, their leader, have also refused to work on a solution to the AMT arguing that we need to extend current tax rates for the rich while doing nothing to help the middle class.

Mr. ENGLISH. Will the gentleman yield?

Mr. CROWLEY. When I am done.

His quote in the Boston Globe was “Why would we want to risk the future growth of our economy in an effort to raise taxes on those that my colleagues across the aisle don’t like much.” I believe he was referring to the rich in our country.

What I would ask of you is how would you respond to these powerful opinion makers here in Congress on the AMT and their opinion on the AMT, and their attempt in their view to let it run the course to incite the American people to do something about it?

Mr. DAY. Like I said earlier in my testimony, common sense needs to prevail on this subject, and pointing blame, I do not think is very productive, but getting to your question, the overall problem needs to be addressed.

I am not a CPA like the distinguished people here to my left. It needs to be brought to the forefront. It does not matter if you have an “R” behind your name or a “D” behind your name. It just needs to be thrown out on the table, roll up the sleeves, and let’s get it done, so to speak.

The patch approach is not going to work. It is dipping further and further down each given year into more and more American middle class wallets. That kind of sums it up.

Ms. RAUH. I would like to comment that who is more likely to put money back into the economy than the middle class. If you take our tax refunds away, we are spending people. That is what we do with our tax refund. We do not invest it in stocks. We do not save it. We put it back into the economy.

Mr. CROWLEY. Mr. Chairman, I know Mr. English wanted me to yield, but my time has expired. It is up to you, Mr. Chairman.

Chairman NEAL. It would be my intention if we might, to proceed with closing the hearing.

I want to thank these witnesses. You were terrific. You put a human face on the challenge that confronts all of us here. In addition, what I think is terribly important to acknowledge is we intend to go forward, and at the same time, we want to go forward in a bipartisan manner, in a bipartisan fashion.

After all, when this tax is paid, it is not paid by just one political party, it is paid by all members of the American family.

With that, I want to say thank you to the panel.

Mr. ENGLISH. Mr. Chairman?

Chairman NEAL. Yes?

Mr. ENGLISH. If I could, and I am grateful for the opportunity, just if possible by unanimous consent, to submit for the record this particular document, which is a study that tracks a number of AMT taxpayers, and specifically shows the impact of recent tax policies on AMT projections, which I think will help clear the air on some of the points that have been made.

I thank the gentleman, if I might do that.

Chairman NEAL. Without objection.

[The information follows:]

T07-0085

Effects of 2001-2006 Tax Cuts on AMT projections, With and Without Extension and Indexing of AMT Relief, 2001-2010¹

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of AMT Taxpayers ² (millions)										
Pre-EGTRRA Law	1.7	3.8	4.2	5.1	6.4	8.1	10.2	12.3	14.2	16.5
Current Law	1.3	2.1	2.5	3.3	3.5	3.5	3.4	26.5	29.3	32.4
Change due to 2001-6 Tax Cuts	-0.4	-1.7	-1.7	-1.8	-2.9	-4.6	13.2	14.2	15.2	15.9
Current Law with Extension and Indexing of AMT Relief ³	1.3	2.1	2.5	3.3	3.5	3.5	3.8	4.4	4.6	5.2
Change due to 2001-6 Tax Cuts with Extension of AMT Relief	-0.4	-1.7	-1.7	-1.8	-2.9	-4.6	-6.4	-7.9	-9.6	-11.2

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-1); and IRS. For 2001-04 the number of AMT taxpayers has been calculated by adding the TPC microsimulation model estimates of the number of taxpayers with lost credits or reduced deductions but no direct liability to IRS published actual figures for those with direct AMT liability. For 2005-10 under all three scenarios, and for pre-EGTRRA law from 2001-4, estimates are from the TPC microsimulation model.

(1) Calendar years. Tax units that are dependents of other tax units are excluded from the analysis. Numbers may not add due to rounding.

(2) AMT taxpayers are defined as those with an AMT liability from form 6251, with lost credits, or with reduced deductions.

(3) Includes extension of 2006 AMT exemption amounts, indexed for inflation after 2006, and allowance of personal non-refundable credits regardless of tentative AMT.

Chairman NEAL. Again, thanks to the witnesses today. You were superb. Thanks to the Members of the Committee for their presence today. It was most helpful.

This hearing is now adjourned.

[Whereupon, at 11:34 a.m., the hearing was adjourned.]

[Questions submitted by the Members to the Witnesses follow:]

Question from Chairman Neal to Mr. Campbell

Question: Mr. Campbell, you have said that paying AMT for the last 4 years has had a real economic impact on your family. Can you tell us what spending decisions have been made or changed because of the AMT?

Answer: I would say it has had two major economic decisions in my household. One, we are more focused on in-state college options for our second child thereby saving money and second, my wife stopped working full time in 2005 as there was no real financial benefit. After taking over 1 year off, she has returned to the workforce part-time and we continue to evaluate the benefit of that arrangement. In the end, her earnings put us into the AMT category and result in most if not all of her income being used to satisfy tax obligations. These decisions are in addition to the everyday spending decisions impacted by having less take-home pay. Things like eating out less, traveling less and spending less on large-ticket items.

Question from Chairman Neal to Mr. Lifson

Question: Mr. Lifson, you cite some statistics on the amount of time and money lost to taxpayers that have to fill out the complex AMT forms. And then, many find out they do not owe AMT after all that hassle. I guess we would call that a blessing in disguise. Do you think this simply results in many more taxpayers having to seek professional assistance, from people like yourself, in preparing their returns?

Answer: [Response pending.]

Question from Chairman Neal to Mr. Walloch

Question: Mr. Walloch, you cite the case of the Klaassen family of Kansas—with 15 exemptions, certainly not a typical family. But also, not the family you would think the AMT would target. However, they paid more than \$25,000 in higher taxes over several years because of the AMT. And you also cite instances of taxpayers who have gone out and bought hybrid cars thinking they will get the credit Congress created for such purchases, but the AMT took it back. It seems the AMT works directly against Congressional intent sometimes. Would you agree, and do you have other examples of this?

Answer: “Chairman Neal, yes, I agree with you. Other examples of when the AMT works directly against Congressional intent include taxpayers entitled to the standard deduction including additional standard deductions for the blind and elderly only to have those standard deductions disallowed for AMT. Also, taxpayers who have significant medical expenses, as in the Klaassen case as a result of their son’s cancer treatments, are denied an additional portion of those medical expenses because of AMT. Also, hard working Americans who pay unreimbursed employee business expenses find that those expenses are not allowed for AMT as illustrated in the Aaron Law case.”

Question from Chairman Neal to Mr. Nixon

Question: Mr. Nixon, I am a big supporter of the R&D tax credit and I understand that many small business owners may lose this and other general business credits because they may be on the AMT. Certainly, we do not want a tax system that punishes business owners for doing research or for hiring disadvantaged workers. How do your clients react when you tell

them these incentives are lost to the AMT? Is there any way to plan around it?

Answer: “Chairman Neal, this tax season we have increasingly seen our clients affected by the Alternative Minimum Tax. One client in particular invested over \$200,000 in solar panels for his ‘S’ Corp business because he understood he would get a solar credit on his personal return. Because this taxpayer was subject to the AMT the taxpayer lost a credit worth thousands of dollars. Our client was very upset. A 75-year-old woman purchased a hybrid car in 2006. She was told she would get an ‘Alternative Motor Vehicle Credit.’ She received only a minor portion of the credit because she was subject to the AMT. The unused portion of the credit is not available for carryback or carryforward and is thus lost! If Congress has a tough time eliminating the AMT, the only real fix to this dilemma is to allow these credits and many others to lower the taxpayer’s income tax below the AMT level. These and many other credits should stand on their own and not be affected by the AMT and should be allowed to lower the taxpayer’s tax burden beyond the minimums set by the AMT. This would be a good opportunity for a bipartisan reduction in personal income tax thereby spurring the economy as was the intention of these credits in the first place. To take the R&D credit of many other credits under the current tax structure, a taxpayer has to prepare many calculations to see if the AMT applies. If the AMT applies the taxpayer then has to see if there are ways to shift income and deductions to take advantage of the applicable credit. This may be close to impossible. This is why the AMT should not hinder these credits. This current system places too much burden on the taxpayer to juggle income and deductions just to get the desired credit. I hope my examples and ideas help in making Congress aware of how the AMT negatively affects many business taxpayers.”

[Submissions for the Record follow:]

Angela Hartley
San Diego, California
March 20, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Angela Hartley and I am writing regarding a huge AMT tax debt that I incurred on “phantom” gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. It is a first step toward ending a financial nightmare that I have been living for nearly 7 years. The return of the tax overpayment credits will at least restore a fraction of what I have lost while struggling to pay taxes incurred on phantom income.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family’s story.

I am a single mom of a 13-year-old son. I incurred the AMT liability in 2000 after exercising incentive stock options from the biotech company I worked for. I reported the exercise, have tried to pay off the debt, have sought a compromise with the IRS, but with little success. To pay the tax (and penalties and interest) of the phantom gain, I have lost my home, liquidated my savings and retirement and have been left with nothing. As opposed to the \$40,000 I would owe under the regular tax code, I have paid over \$530,000 to date, still owe over \$115,000 and cannot get an offer-in-compromise from the IRS because it is a legitimate tax liability unless Congress instructs the IRS otherwise.

My story was reported on the front page of the San Diego Union Tribune 2 years ago and it has only gotten worse (<http://www.signonsandiego.com/news/state/20050313-9999-1n13tax.html>).

Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, seeking offers in compromise. I am hopeful that the IRS will see that Congress intended to also provide relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay, but so far they have indicated that they will do nothing unless Congress instructs them to do so.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions. I have made peace with the fact that I will never be made whole again—I lost a low mortgage payment, low interest payments, low property taxes, the gains I would have made on my 401(k), my house and retirement and the things I could not provide my son during his middle and high school years—those cannot be restored. I *JUST* want the chance to start over without the huge undeserved albatross around my neck.

A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as San Diego, California (my home), Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

I am grateful to Congress for all it has done and is doing to help families across the country suffering from ISO AMT, but I hope they will tie up the loose ends that will actually provide the relief they intended. Please do not hesitate to contact me at (858) 361-9475 if you have any questions.

Sincerely,

Angela L. Hartley

Brian Hanrahan
Brentwood, Tennessee
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Brian Hanrahan and I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on “phantom” gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for the last 3 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

My family has suffered greatly due to the treatment of ISOs by the AMT. I have had bank accounts levied, my credit ruined, and my marriage strained. Somehow we have been able to keep the house but to do so I am currently paying half of my salary in installment payments toward my 2004 ISO AMT liabilities. Unfortunately, this payment mostly goes towards interest and penalties. I will not begin to get relief from the legislation passed last year until 2008. By the time I receive all of my \$188,652 credit in 2013, I will have paid \$122,624 in interest and penalties on the amount owed equaling the outstanding credit.

I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at 615-364-7934 if you have any questions.

Sincerely,

Brian Hanrahan

Brian Lent
Bellevue, Washington
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Brian Lent and I am writing on behalf of myself regarding a huge AMT tax debt that I incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs) from 1998 through 2001.

First, I would personally like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for their *significant efforts* in the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. **These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief.** These are discussed in more detail below, but first I would like to briefly tell my family's story.

I relocated to Seattle in 1998 based on the acquisition of my employer by Amazon.com and the resulting promise of value from some large ISO exercises. Unfortunately, after triple-mortgaging my present house and other property to pay for the AMT taxes these exercised entailed, the stock values dropped by *more than 95% in value after the AMT and IRS taxes were paid* and to this day I have a large AMT credit with no possibility (without this bill) of using it up in my lifetime! Sadly, my average AGI for the past 10 years has been at or below \$100,000 and only recently

has risen above that level, and now after all this hard work to pass the legislation I am likely to STILL be excluded due to the income phase-outs! If there are to be any phases-outs at all, why aren't they based on our AGI incomes during the same period the ISO AMT was incurred—the time of my deepest poverty.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Washington, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Warmest Regards,

Brian Lent

Statement of Coalition for Tax Fairness

Thank you for your ongoing work and commitment to resolving the unfairness and inequities that are severely impacting American families and workers under the AMT tax regime.

CTF respectfully asks for your continued support for helping families and workers as they struggle to put their lives back together after suffering financial devastation due to the unintended imposition of massive taxes on "phantom income" when these workers purchased incentive stock options from their employers back in 1999–2003.

Extending Needed ISO AMT Relief to Workers and Their Families

Removing Phase-outs Which Harm American Families. Please remove income phase-outs from the relief legislation passed last year, as these phase-outs unfairly target families in high cost-of-living States such as California, Massachusetts, New York, New Jersey, Connecticut and Virginia. Families in those States have been and are suffering as much from unfairly disproportionate taxation as people with lower incomes in lower cost-of-living areas.

Many employees are now having to decide whether to quit work in the next few months in order to recover their credits, and they are wondering how they will then meet monthly expenses and family obligations. Companies and the economy will suffer. Other families nearing retirement are faced with the reality under the phase-outs that they cannot sell their home to move to a retirement community, because that will generate income that will preclude them from recovering AMT Credits.

Addressing Ongoing Liability, Interest and Penalties. Many families continue to suffer under ISO AMT tax burdens they have been unable to pay for 6 years. The Baltimore Sun recently ran a story on one elderly couple struggling to resolve their ISO AMT liability under the offer in compromise program.

Please encourage the IRS to resolve these cases fairly and quickly. The Coalition for Tax Fairness is working *pro-bono* with two families who have submitted offers in compromise for ISO AMT liability, following the passage of the ISO AMT Relief legislation last year. CTF is hopeful the IRS will adopt an internal policy position that will quickly compromise these liabilities that were based on phantom income, without imposing interest and penalties, in order to allow these families—and thousands like them across the country—to put this nightmare behind them and move on with their lives.

CTF wants to once again express deep gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT.

Cong Trinh
San Jose, California
April 4, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Cong Trinh and I am writing on behalf of myself and my wife Susan, regarding a huge AMT tax debt that we incurred on “phantom” gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

In 2001 we were hit with a Federal tax bill of over \$250,000 due to ISO AMT liabilities. It was quite a shock to us since our average Federal income tax has been around \$20,000. It was my decision to exercise the ISO stocks and to hold for a year to get a long-term capital gain but the stock market crashed and my stocks value dropped so much that its value was not enough to cover the tax bill and we had to refinance the house to get over \$150,000 in equity and used all our lifetime savings to pay the tax. My wife blamed me for the bad decision that I made and we had been in constant fighting that we were considering a divorce in late 2001. We had to see a marriage counselor to be able to keep our marriage.

(i) *Addressing Ongoing Liability, Interest and Penalties.* Many ISO AMT liabilities were so incredibly disproportional to actual gain that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers

in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

(ii) *Removing Relief Phase-out for American Families.* A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Cong & Susan Trinh

Statement of Craig Chesser, New York, New York

Recent legislation undertaken to correct some of the injustices of the Alternative Minimum Tax, while a step in the right direction, do not go far enough. The tax code's AMT rules are—by ANY rational reckoning—some of the most radically unfair, irrational, and inconsistent rules in the entire tax code . . . and we all know how much that says.

The AMT rules as they relate to exercise of Employee Stock Options are not only inconsistent with legislative intent, they are grossly unfair in how they often result in virtually unrecoverable tax liabilities even when the employer stock purchased by the employee is ultimately sold at a significant or total loss. Besides multiplying losses on stock options and creating devastating financial ruin, the AMT rules have the secondary effects of discouraging employee investment in employers and undermining any sense of fairness in our tax code.

Employee stock options are not just a compensation perk for the already-rich; they are a cornerstone of compensation for emerging growth companies that are responsible for much of, if not most of, the growth in our economy. These companies, which are usually cash-poor, must often rely on granting options to all or virtually all employees as one of the only ways available to them to remain competitive in the marketplace for talented employees. To penalize employees when they exercise these stock options by triggering taxes—often in huge amounts—merely because the employees did not sell that stock by the end of the year of purchase, is quite frankly beyond ridiculous.

Payment of AMT taxes does result in a credit of sorts. However, to rely on the AMT credit to correct the gross unfairness of taxes paid when employee options are exercised fails to recognize that these AMT credits are often virtually worthless. Even when the AMT credit does result in some sort of recovery, this recovery often takes many years, resulting in inflation and the Federal Government being the only beneficiaries of a long-term interest-free loan from a working American.

It's distressing that the obvious must be stated even after all these years in which Americans have suffered from the bizarre and unfair AMT rules relating to stock

options: Taxes should be payable when gains are realized—not when stock is purchased and held. Any taxes paid by employees simply because they purchased stock in employers with options and held that stock beyond the end of the year of purchase should never have been assessed in the first place, and should IMMEDIATELY be refunded.

I incurred a devastating Alternative Minimum Tax of over \$125,000 when I exercised options in my employer, whose stock became nearly worthless before I could sell my shares. It was my first ever stock option exercise and even though I was in a finance profession, I was unfamiliar with the details of AMT and how it worked. I have since found that few tax practitioners have a good working knowledge of AMT either. Those who do seem to universally abhor it due in part to its complexity, but more importantly due to the way it imposes cash taxes, often astronomical taxes, on gains that only exist on paper and may permanently evaporate before any realization occurs. Even in cases where the ultimate loss realized is total, the present AMT code perversely compounds the loss because most or all of the taxes paid on the paper gain can be impossible to recover. This of course is a severe and blatant violation of any principle of fairness the tax code may otherwise strive to achieve.

I exercised my options in December 1999 with the intent of selling the stock after my company announced earnings in February. I exercised early because (a) my company's captive broker did not reliably execute trades in a timely manner; (b) I had time to do the exercise and account setup paperwork and I knew I would have very little time after the end of the year; and (c) even as a finance professional, I never suspected AMT would have such a hugely devastating, unfair effect—taxing me on gains I never actually realized.

I didn't realize that by exercising in one calendar year and holding the stock for sale just a short time later, but in a different calendar year, I was automatically subjecting myself to AMT. By the time I should have been able to sell, my company prohibited me from selling, and I was stuck with the stock, which was rapidly diminishing in value. I had exercised the options on margin, and to pay off the margin debt I had to sell my house.

AMT turned what could have been just a lost opportunity to make money on stock options into a devastating, life-changing event that gutted my savings and cost me my home. All this to pay tax on phantom gains that had evaporated by the time I filed my income tax return the next year. This is truly the most twisted, broken, and unjust aspect of the tax code.

Statement of Dan Taylor

Thank you for the opportunity to submit this letter to detail the hardships my family has faced as a result of the Alternative Minimum Tax. My name is Dan Taylor and I am writing on behalf of my wife Vicki and my children Trent and Stephanie. I write to you today to beseech you to provide a remedy to taxpayers and families who have been financially blindsided by the antiquated tax code that is the Alternative Minimum Tax, especially as it applies to Incentive Stock Options (ISOs).

In January 1998, I was hired by GeoTel Communications in a sales position to sell telecommunications software. As an incentive to work for this small company, I was granted ISOs as part of my compensation package. These options would vest over time and I would have the opportunity to receive additional grants for meeting performance goals, which I did. This was the first position that I held in my career where I received any form of stock option with my only investment experience being through personal IRAs and company sponsored 401Ks, so I would consider myself an unsophisticated investor. I did not know one type of stock option from another, which would prove to be catastrophic to me and my family later.

In June 1999, GeoTel, with revenues of approximately \$40 million, was purchased by Cisco Systems for \$2 billion, or 50 times sales. I received a bit more than one share of Cisco stock for every share of GeoTel that I was holding an option on, so this made my accruing options very valuable. In June 2000, I left Cisco Systems to pursue other interests and was required to exercise the options and purchase Cisco stock or lose all the options at no value. I used some options granted while I was a Cisco employee, Non-qualified (NQs), to purchase the ISOs that I originally received from GeoTel. The NQs were taxed as I bought and sold them as ordinary income and the proceeds from the sale were used to purchase and hold the ISOs. I purchased 28,000 shares of Cisco stock for \$4/share on a day that it was selling in the open market for \$62.

All of these transactions were made with the help of a professionally licensed financial consultant. Every effort was made on the part of my wife and me to handle this financial blessing properly with regard to income taxes. We were advised that we would be taxed when we **sold** the ISO-based shares. The resulting tax would be at the long-term capital gains rate if we held the stock for 1 year. We were never advised that we had created a taxable event on the day that I purchased the stock with a tax liability of approximately \$500,000 triggered by the AMT as it is applied to the exercise of ISOs.

Through late 2000 and spring 2001, the value of the stock plummeted. Vicki and I filed our taxes using the accountant recommended by our financial consultant for the 2000 tax year. We were not asked any questions about our stock transactions other than to provide the 1099 for the exercise of the NQ based options. We were not asked to provide any records for the ISO based options despite the fact that we revealed to the accountant that I had exercised the options in June 2000.

In May 2001, I learned through a colleague from GeoTel that he had paid a tremendous tax bill centered on the exercise of his ISO shares. We both agreed that our situations were similar enough that I needed to research and confirm that my taxes had been filed properly. Much to my horror, I learned that Vicki and I had indeed filed our return improperly. Though we had paid over \$125,000 in Federal taxes, we owed an additional \$438,000 on W-2 income of approximately \$350,000. The additional tax was generated solely by the AMT associated with the ISO stock purchase. I had not sold one share of that stock during 2000. The value of the stock was now less than \$125,000.

We did not have the money to pay the taxes, but I was confident that if we came forward voluntarily that we would be treated fairly and equitably by the Internal Revenue Service. There was no audit trail, but I wanted my children to see that we should do the right thing even when no one is watching. I expected the outcome to be painful, but nothing like what we have experienced.

Everyone that we have come in contact with at the IRS has expressed sympathy for our plight, but very quickly made the point that they have no latitude in how the collection process is enforced. The guidelines are the guidelines. There are no allowances for anything, only formulas that are something out of the 1950s. After 2½ years, we were able to reach an agreement on an Offer in Compromise in October 2004. My family and I will pay \$372,000 over 2 years or about \$14,500 per month. This will require us to sell our home, use all of our savings and tax deferred retirement accounts, and my son will have to leave a 4-year university and attend junior college.

Is this how the tax laws are supposed to work? Are they to be a snare that catches unsuspecting citizens and devastates them financially? If financial professionals do not understand how the AMT applies to stock options, how can the average citizen be expected to understand and comply with this law?

Thousands of Americans have been caught in this snare, not just my family. Only Congress can provide a remedy that will insure that more families will not face similar circumstances. I believe and have faith that you will enact legislation to abolish the current AMT tax law and replace it with more straightforward tax code that the general public can understand. I believe and have faith that you will provide a remedy and relief to families such as mine with some type of retroactive abatement of taxes from ISO triggered tax bills. Why do I believe and have faith that you will do this? The U.S. Congress has the authority to do so, and it is the right thing to do. Thank you.

Addenda

This tax has affected our family in every area of life. We have been uprooted, literally and figuratively. We have paid our tax bill, but at great personal cost. Our savings and retirement funds are gone. Our credit report reflects the situation, which, in turn has forced us to pay much higher interest rates on the mortgage for our current home. It has affected us in intangible ways, too. The feeling of powerlessness in this tax condition has bled into other areas of our lives, including physical and emotional health, and being able to effectively provide for our family, and continues long after the tax has been paid.

The AMT tax law is far more than leaving a position, the decision to exercise a stock option, or a dollar figure on a tax return. It affects individuals and families for years.

Anything that would allow us to accelerate the tax credits to the shortest time possible would be greatly appreciated.



Statement of David W. Moyle, Beaverton, Oregon

The Alternative Minimum Tax is bad government policy on a number of fronts:

- It is unfair.
- It has stifled economic recovery.
- It is very difficult to understand.

My situation is this: I am a mid-level manager at Intel Corporation where I've worked for 20 years. During my first 10 plus years at Intel I received incentive stock options. During the late 1990s and early 2000, the value of these options soared about the same time they were ready to expire. Believing in Intel's long-term future, and the incorrect assumption that long-term gains would be taxed more favorably than short-term gains, I purchased the shares and held them. As a result, I began to trigger the AMT.

In 2001, in particular, I generated more than \$400,000 in AMT based on paper gains. Then, the stock market crashed and Intel stock went from a high of \$75 to a low under \$13 per share. My alternatives were to sell my shares to pay my taxes and have nothing left over, or take out margin loans in the hope that Intel would rise again someday. To this day, I have a \$500,000 AMT credit, most of which I will never get back. This tax is based on phantom profits . . . in other words, money I never made.

Below is why I believe the AMT is unfair, has stifled economic recovery, is very difficult to understand, and has created taxpayer resentment.

The AMT is Unfair

Enron-style accounting: In calculating the AMT, taxpayers must calculate paper gains on stock option shares we have purchased, but not sold, and treat it as income. In other words, no real profit has yet been made. The regulations practically require us to do Enron-style accounting to show phantom profits as if they were real, and then pay taxes on them.

It's not really a credit: As I began to pay AMT taxes and build a "credit," I naively assumed I would readily get this back once I finally sold the stock. While this could happen if the stock ever reaches its former lofty heights at which I was taxed, most of us get only a small portion of this "credit" back, at a rate of only \$3,000 per year. At this rate, I'll have to live to be 213 years old before I get the credit back.

Interest free loan to the government: If we under-pay taxes, the IRS assesses interest on taxpayer accounts until we pay in full. In the case of AMT, I have grossly overpaid my taxes, and rather than receiving interest from the government for my pre-payment of taxes, I had to take out a loan and pay interest to pay taxes on money I never made. In essence, I have given a \$500,000 interest free loan to the government . . . and the government will in all likelihood return only a fraction of the loan.

The AMT Has Stifled Economic Recovery

Discretionary Income Has Gone to Payoff Loans Used to Pay Taxes: Because AMT taxes on ISOs were based on phantom profits, many of us did not have the cash to pay our huge tax bills when the stock market crashed. In my case, I had to take out a \$375,000 loan to pay taxes. My interest payments were double my house payments. Prior to having the huge tax bill, I was shopping for a mountain cabin to enjoy with my kids while they're still living at home. We obviously scrapped this plan. We were beginning to plan an international vacation. We scrapped this too. We planned to make some upgrades to our home. We scrapped these plans as well. Basically, all our discretionary income went to pay off our loan to pay taxes ON PROFITS WE NEVER MADE.

The AMT is Very Difficult to Understand

Confusing and Contrary to Existing Tax Incentives: The AMT requires us to calculate our returns two ways. A "credit" is not really a credit. A paper profit is treated as a real profit. It is very difficult to do financial planning because many tax incentives and normally wise investment strategies, such as holding investments for a year or more, can actually put us at great risk with AMT.

Taxpayer Resentment: Although I can't say I have always enjoyed paying my taxes, I had always viewed it as a necessary responsibility of citizenship. The AMT has left me very confused and frustrated and quite frankly resentful of our tax policy. I feel that the government has taken advantage of me. I feel "robbed." After years of growing my equity, I am now in worse shape than I was 5 years ago because I was taxed on profits I never made. To date, no one has done anything to address this inequity. My hope is that your Committee will be able to do something. In priority order, I would have you:

- Refund “credits” . . . or let us use the credit against all taxes owed, not just future AMT taxes. If this is not done, pay interest on the “loan.”
- Eliminate the AMT altogether . . . or at least go back and truly address the reasons it was created in the first place.

Dear Congressman Neil:

I am very grateful that Congress is providing some relief to those of us who have paid AMT taxes and built AMT “credit” on phantom profits from the purchase of Incentive Stock Options. I place quotation marks around the word “credit” because, to my dismay, I discovered that it’s not really much of a credit at all. Before the AMT relief was passed in December, I had little hope of ever recouping the “credit,” unless I lived to be over 200 years old!

As grateful as I am that relief was passed, I was disappointed that Congress added a phase-out option. In my opinion, an unfair tax is an unfair tax, regardless of income level. I also want to point out an unintended consequences of having an income phase-out . . . it may in fact provide a disincentive to work. In my case, my wife is a homemaker who is considering returning to the workplace since one daughter is in college, the other a sophomore in high school. However, if she were to return to work, it may put us over the phase-out income level. Basically for each dollar she earns, we would receive less AMT money back, providing a huge disincentive for her to work.

For this reason, as well as outright fairness, I urge your support in eliminating the income phase-out on AMT reform legislation.

Thanks for your support.

Deborah Watson
Portland, Oregon
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Deborah Watson and I am writing on behalf of myself and my husband, Allen Watson, regarding a huge AMT tax debt that we incurred on “phantom” gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family’s story.

Early in 2000, my husband and I took steps to prepare for retirement by exercising Incentive Stock Options (ISO). Due to the way that the IRS treats Incentive Stock Options and Capital Gains, we needed to hold the stock for at least 1 year. Under the Alternative Minimum Tax rule, we were taxed at the market value on the day of exercise even though we didn’t sell the shares. In order to set aside enough money to pay the AMT—a staggering amount of nearly a quarter of a million dollars (\$246,000)—we had to sell even more stock that we had set aside for retirement. We then had to pay taxes on those assets, as well. Now our tax burden—above and beyond what we paid in income tax deducted from our salaries—was nearly a half a million dollars (\$493,000)! We are not wealthy people. I am not a senior executive. I have simply been working at the same company for many, many years and have been awarded stock options for my hard work. My husband was a police officer. This situation has entirely depleted the retirement that we have been accumulating for 20 years.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at [Your Contact Information] if you have any questions.

Sincerely,

Deborah M. Watson

Eric Delore
Alameda, California
May 7, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Eric Delore and I am writing you from California's Thirteenth Congressional District on behalf of myself and my family regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below.

How has this AMT situation affected me personally? I owe \$420,000 of Alternative Minimum Tax (AMT) on under \$5,000 of actual income derived from the sale of frightfully deflated Incentive Stock Options (ISOs). For more about my story, please see <http://www.ericdelore.com/weblog/amt/>.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at 510-390-4015 if you have any questions.

Sincerely,

Eric Delore

Gerald Marx
San Diego, California
March 3, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Gerald Marx and I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the

application of the Alternative Minimum Tax to incentive stock options (ISOs). I reside in the 50th Congressional District in California.

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

In Year 2000, I exercised ISOs and incurred approximately \$39,000 in AMT. This depleted my family's financial savings. As a result, in Year 2001 and 2002, we maintained a strict budget where a few dollars did not get unnoticed. This was especially true with a new baby in the family. I have recovered approximately \$35,000 of the original AMT but unfortunately, we will be subject to AMT this year so the ultimate recovery is still at least a few years away.

I know of several people who were subject to AMT due to ISO exercises in Year 2000. One individual that I know incurred approximately \$500,000 in AMT. He was financially broke after that experience. Tough financial times were had by all of these people.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Gerald Marx

Hans Lachman
 Mountain View, California
 April 5, 2007

The Honorable Chairman Richard Neal
 The Honorable Ranking Member Phil English
 Select Revenue Measures Subcommittee
 1102 Longworth House Office Building
 Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Hans Lachman and I am writing to you regarding a huge AMT tax debt that I incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my story.

In 2001, due to AMT, I was assessed an income tax that was about twice my annual income, and I paid the tax in full. Over the next several years, I sold the stock that caused the AMT assessment, but the actual gain was far less than the "phantom" gain that I had paid taxes on. The result was a large AMT credit balance that I would have never recovered without the relief that was passed in 2006. Although I am not subject to interest and penalties, and probably not subject to the income phase-outs (see below), I am sympathetic toward those who are subject to same, and I believe it is important to provide further relief to those who are in those situations.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from

these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me as indicated below, if you have any questions.

Sincerely,

Hans Lachman

Eldersburg, Maryland 21784
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Heather Youskauskas and I am writing on behalf of myself and my husband, John Youskauskas, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

John and I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

John and I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

It was in 2000 when all of the tech stocks boomed and hit Wall Street. I started working for a "Start-Up" so they called it and one of the benefits was Incentive Stock Options or (ISOs). I never realized what was about to happen to us as we were not provided detailed information and tax/financial consultants were not really seasoned on Alternative Minimum Tax (AMT). In the end we were given shares to exercise and did so; however, not without incurring a huge AMT to be paid the following year. We of course never made a dime on these stock options as the stock plummeted after being one of the largest IPOs to hit Wall Street and I was locked up from selling them for a period of over 6 months. The IRS of course was not sensitive to this and demanded the money owed, but we did not have it as we did not gain anything. I do understand tax levied on real income. I do not understand how tax can be levied on phantom income from anyone whether white collar, blue collar or destitute. This needs to change. ("Please also see the attached letter telling my personal story.")

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at [Your Contact Information] if you have any questions.

Sincerely,

John Youskauskas
Heather Youskauskas

To Whom It May Concern:

The spirit of Naziism, Socialism, and Communism has found a protective incubator in the IRS. In other words, the IRS has become a police state, an entity so independent that it rules, as does no other area of our government, with utter disregard, indifference and hostility toward the populace. It is astounding that those words, thoughts, and feelings of contempt would be vocalized by me. The issue of injustice concerns a young couple in their early 30's, Heather and John, parents of a 10-year-old boy and a 1-month-old baby girl. They are middle Americans, both hard working. Heather's company went public 1 year ago in July and was the largest IPO to hit Wall Street raising capital in excess of \$400 million. On the day she was hired with the company, she was given Incentive Stock Options (ISO's), which was the norm at that time warranting lower salaries and possibly attracting more experienced employees. At the time of the gift, the value of the stock was \$1.15 a share. They were told that the stock could not be sold, traded, disposed of in any lucrative way for 6 months (with additional lockup periods each quarter due to her being considered an "insider") she was forced to sign a Lockup Agreement. Then, during this period of no-sale, two things happened. The value of the stock went from \$114 to \$25, and another tax year was entered. Also, even though they were prohibited from selling, the IRS valued the stock as though it was income, which it was not and subsequently levied the tax along with penalties and interest, as they could not afford to pay.

She was not allowed to cash in this "gift," and so received nothing from it. However, on paper, the stock was highly valued, as were so many of those high-tech companies. Consequently, the IRS, seeing dollars on paper, declared that Heather and John owed approximately \$83,000 in taxes (due to the Alternative Minimum Tax Laws or AMT); however, after interest and penalties over a 6 month period, they now owe \$96,000 and have been forced to hire a tax attorney to assist them in dealing with the IRS. Shocking, as their net worth or income nowhere approach this number and have greatly decreased due to the downward market trends.

I do understand tax levied on real income. I do not understand how tax can be levied on phantom income from anyone whether white collar, blue collar or destitute. Not only have they not received a penny from the stock, but real money will be paid to satisfy this levied burden—monies which have already been taxed once because that is how the IRS tax laws are written. In addition, they will literally be loaning the IRS money interest free, but will have to take approximately 28 years to get it back through tax credits as you may only claim a certain amount each year. Thus, shattering any hopes of putting money away for their children's education, not to mention possibly being forced to file for bankruptcy to alleviate paying other debts in order to pay the tax bill. Is this really what the "Land of the Free" is all about? Please tell me that I have misunderstood and there is some way to rescue them?? The young folks tried explaining their situation to the IRS officials. The "kinder" IRS folks retaliated by telling them to sell their home of 2 years, their cars, turn over their savings account and all their monies in their IRA's. The "kinder" IRS was indifferent to the fact that the couple never received any distribution from the stock. The "kinder" IRS was indifferent that the young mother was placed on disability because of pregnancy complications and then subsequently laid off from the company, whose stock has now plummeted to \$.70 a share. The "kinder" IRS was indifferent to the mother's concern over the baby's heart murmur and breathing problems. The "kinder" IRS told her to find a job soon so that she could begin to pay these taxes. Obviously the "kinder" IRS honors money ahead of motherhood and family values. The "kinder" IRS would not take into consideration that it would cost more than \$700 per month for child care for the baby, and that this amount would not cover any before and after school care for the 10-year-old son if she went back to work. The "kinder" IRS would not listen to the mother's physical needs, which are recovering from the Caesarian section, leaving her a bladder with no sensation. The "kinder" IRS does not understand kindness. The "kinder" IRS is unable to quantify a situation. The "kinder" IRS can only see numbers on a paper and is indifferent to the honest situation surrounding those numbers. As I said in the beginning, the "kinder" IRS is its own Gestapo State.

This problem is perceived by U.S. Congress as being inappropriate, but measures to correct it in the House were defeated by reasons unknown. However, my understanding is that while these measures were defeated, government respectfully asked that the IRS not go after victims of this nature. Maybe this is the government's way of taxing the rich and protecting the lower- and middle-income citizens; however, this type of situation has hurt many middle Americans and will continue to do so unless something is changed and fast. Taxpayers should not be forced to pay tax on income that never materializes in order for the IRS to protect their interests up front from any massive overall gain. How the government can stand by and watch this happen to so many, I will never understand. Especially in a time when things are so tough financially.

In closing, I would like to say that I have always loved the simple fact that I am an American. Nothing filled me with more pride than being from a country that fought so hard for its freedom and protecting its own other than watching my children smile and reach for their dreams. Living the "American Dream" is all I ever wanted. However, it has been a long cold year and I fear that my pride is turning to hate and utter contempt for my country for the simple fact that we can run to protect so many other countries, forgive foreign debts beyond comprehension, and pardon those who honestly do not deserve it, but when given the chance to truly help our own, we refuse or reply, "I'm sorry, but that is just the way it is." Please tell me that this is not the way it is and that we can rest knowing that this will be taken care of because it is truly not right? Please tell me that I do not have to explain to my children why we could not put away money for their education and other things and pray they do not develop mere hate and contempt as well, but rejoice and give thanks that we live in a land where people are truly merciful??

Bitterly,

John & Heather Youskauskas

March 17, 2005

In continuation of this letter written in 2002, we have been through many trials and tribulations in order to free ourselves of this battle with the "phantom" AMT and finally have been successful. While it took the assistance of a seasoned tax attorney, and of course money, nothing can compare to being relieved of this issue.

We originally owed the IRS in excess of \$120,000 after all of the penalties and interest had accrued and with the help of our attorney we realized that we should not have owed the tax to begin with as our situation was unique based on the IRS laws and regulations. We wonder how many others have suffered as we have for over 2-3 years trying to bring resolution to their cases and been unsuccessful. We still await our tax credits and only in increments of \$3,000 each year, but we guess that is a small price to pay compared to what we were originally told that we owed.

Please don't misunderstand, we may have solved our issue; however, we strongly feel that the way tax laws are currently written that many people have suffered and will continue to suffer unjustly until the AMT is reformed to bring balance to American taxpayers. No one should be forced to pay taxes on phantom money or money that may never be realized. This is nothing but a benefit to the IRS in collecting money up front when possible losses are at stake. Not to mention, the corporations have no liability in these matters when they reward employees with stock options and refuse to educate them as well.

Thank you for the opportunity to share our story. We look forward to the "new" reformed AMT.

Larkspur, California
May 7, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs). This grossly unfair tax, which in my case amounted to an effective tax rate of 106% on stock sales, cost me everything I owned. I lost my home, life savings and children's college funds as a direct result of the AMT.

I would like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock. Unfortunately, the bill does not provide any relief in my case.

For this reason, I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave my family with no relief.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes or in the case of a death of a relative who left some of their estate, are left with the Hobson's choice of for-

going some or all of an intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Herman Bluestein

Seattle, Washington
April 3, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
The Honorable Jim McDermott
Select Revenue Measures Subcommittee
1102 Longworth House Office Building

Dear Chairman Neal, Ranking Member English and Honorable Jim McDermott:

My name is Jeff Damir and I am writing on behalf of hard working Americans who still need your help to deal with huge AMT tax debts that due to "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope to impacted families. The Relief Legislation was a big step forward.

I would respectfully ask for your continued support for an important issue that remains unresolved for many ISO AMT victims. Many ISO AMT liabilities were so incredibly disproportional to actual gain that thousands of families across the country were unable to pay.

Even after the ISO AMT Relief legislation passed last year, the IRS is still pushing to collect AMT related liabilities, interest and penalties. While it is illogical that the IRS would actively be collecting AMT liabilities related to a law that stipulated that IRS will refund the taxpayers money, it is unfortunately the reality that faces many American families.

I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were somehow able to pay, but deny relief to those who were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. Unfortunately, the IRS continues to push collection activities and drive American families into bankruptcy to pay ISO AMT liabilities. The IRS appears to be operating as if the Congress has not changed the law.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families have struggled and suffered for almost 7 years desperately need ISO AMT liabilities, interest and penalties abated, or they will continue to be caught in the downward spiral.

Recently, I was playing a computer game with my 8-year-old son. During the game, the narrator discussed the Boston Tea Party and how the colonist felt they were being unfairly taxed without representation. My son and I discussed that the colonist became very upset, and in turn, the unfair taxation led to resentment, protest, and the Declaration of Independence. For the past 6 years, American families have endured the IRS demanding payment for taxes that are unjust and unfair and many families have been devastated, driven into bankruptcy, . . .

I hope that you and leaders of our great country finish this important work and reform AMT to address all the families impacted and devastated by this unjust tax.

In conclusion, I want to express my gratitude for your support and efforts to reconcile this unfair situation and helping families across the country suffering from ISO AMT.

Sincerely,

Jeff Damir

Statement of Jeffery Chou, Foster City, California

Thank you for giving me the opportunity to write to you concerning the Alternative Minimum Tax. Specifically, I would like to address Alternative Minimum Tax's treatment of Incentive Stock Options.

My name is Jeffery Chou, and I have a wife and two daughters—one is 6 years old, and the other is 3 years old. We currently face an AMT bill, from exercising Incentive Stock Options, which is greater than all our assets.

In 1996, I left a secure, stable job at a large company to help start a communications company as an engineer. My compensation consisted of an annual salary of \$80,000 and Incentive Stock Options. Cisco Systems eventually acquired us. It was a happy time for my family, thinking that my hard work in helping to build a company would finally pay off.

In 2000, we decided to exercise my stock options, and were advised to hold the stock for 1 year. We did not and do not live extravagant lifestyles. We live in a 3-bedroom townhouse—I drive a 1997 Toyota, and my wife drives a 1998 SUV. We have good credit and have always paid our taxes in full and on time. In April 2001, following my exercise of the Incentive Stock Options, we faced Federal and state taxes of \$2.4M, more than 6,000% of our normal income tax and more than everything we owned. We also faced an ethical and moral dilemma. As we sought professional help to deal with this tax liability, several CPAs advised us not to comply with the law—to simply omit reporting the exercise and the tax. We discovered that the AMT on exercising stock options is a self-reported tax. Many of my friends and colleagues took this approach, did not report their exercise of stock options, and to this day, live happy lives.

However, we decided to “do the right thing” and comply. We had faith that our country, in return, would also “do the right thing” and not ruin its honest taxpayers. Since then, the IRS has sent us threatening letters, placed a lien on our names, attempted to levy our accounts, and actually visited our house demanding payment. The IRS rejected our Offer In Compromise and we appealed. The appeals officer admitted to us that our offer was in good faith and was reasonable, but that he still could not accept it.

I do know that those who did not report are certainly glad they didn't. And I also know that among the many honest people I have met over the last 6 years whose situation is similar to mine, few or none, if faced with the same choice, would comply again. Why volunteer for a 100% guarantee of ruin, when you can win the audit roulette 99.9% of the time? My friends, if caught, will simply claim ignorance of the law. I am told it will be hard to prove that they were not ignorant of the law given how many tax experts are unaware of the consequences of the interaction of the AMT with Incentive Stock Options.

You may ask “Why didn't you sell?” We are not sophisticated investors. I am an engineer; and my wife is a stay-at-home mom. We listened to advice that told us to hold for 1 year. At the time, I had no knowledge of diversification or hedging strategies. I worked 12-hour days trying to build products and meet schedules. At night, I returned home to help my wife with our newborn daughter. That was my life. In addition, our CEO, all throughout 2000, even as late as December, kept touting Cisco's optimistic future, saying “we will be the most powerful company in history,” “we are growing 30 to 50% every year,” and “we are breaking away from our competitors.” At the time, he was never wrong before, so I felt no sense of danger for my job, for my company, or for the stock. I had faith in my company and its leaders.

Last year, Congress heard our cries for help and passed H.R. 3385, which refunds AMT credits over a period of 5 years. This is certainly a great step in the right direction. But, it still does not address those people who were not able to pay the tax in the first place. Under the new law, I will get a refund of my credits over the next 5 years, but I will still owe more in penalties and interest than all my assets after that. I sincerely ask Congress to help address this issue—to abate penalties and interest on taxes that will be returned to us over the next 5 years.

This is the highest priority of my life. Please do not hesitate to contact me any time for any reason.

Statement of Kelly Baird

How would you like to pay taxes on money you never had? The AMT is forcing U.S. citizens to pay taxes on a losing lottery ticket. Here is my story . . .

In 1998, I joined a startup company, Ariba, Inc. I was offered Incentive Stock Options (ISO) as was every other employee at Ariba. I exercised 25,000 unvested shares of my ISO on Oct. 10, 2000. I would not vest (i.e. I did not own and I did

not have the ability to sell) those options until Oct. 10, 2001. On April 16, 2001, I was forced to pay \$1,000,000 in AMT because I purchased those options. Those options are now worth \$100,000 or 10% of my AMT bill. I have yet to see one dollar of profit from any of those shares.

I have lost my families' savings. I am on the verge of losing my home that my husband and I have worked so hard to keep. My economic freedom has been ripped from me just because I purchased a losing "lottery ticket" called stock options. Worst of all because of my actions, I have made my husband and my two children suffer for my lottery ticket purchase.

If I had won the lottery or had sold my stock options, I would gladly pay my fair share of taxes based on the lottery ticket winnings or sales price of the stock. But, that is not how the AMT works. Instead, you still have to pay taxes even on your losing lottery ticket and money you never made. How can we live in a country that holds freedom so close to our hearts and yet taxes middle class, law abiding, and tax paying families for earnings we never had?

The AMT was never designed to tax middle-class families like mine in such a cruel and unfair manner. The AMT is a complex set of tax laws originally passed in 1969 designed to address a small group of super-wealthy individuals who were hiding their wealth from the IRS in the form of illiquid assets. I am not a "super-wealthy individual." My name is not Rockefeller, Vanderbilt, Kennedy, Gates or Ellison. Why have I been subject to AMT if I am not a "super-wealthy" person and never saw ANY earnings for the AMT taxes I had to pay?

In addition, since the inception of AMT in 1969 it has never been adjusted for inflation. If the AMT had been adjusted for inflation, my family would have never been forced into this situation. Why has my family been punished because of a major inflation adjustment oversight?

The AMT must be reformed in order to bring it back to its original intent—ensure the super-wealthy pay their fair share of taxes and to ensure that you pay taxes on your actual earnings.

Statement of Kevin R. Frank, Cary, North Carolina

I am in a very bad situation because of the tax liabilities that were generated in year 2000. Because of the economic downturn of the telecommunication industry, I was laid off from Cisco in March of 2000. This situation forced me to execute the NQ stock options I had accumulated over the 5+ years I had worked at Cisco or loose them forever.

I did not know the single act of executing NQ stock options becomes a taxable event in the eyes of the IRS. I did not sell stock; I did not receive any cash; I did not realize any gain whatsoever in this transaction—not a single dime!

Because of the complexity of the tax forms, I paid a CPA \$900 to prepare my taxes and tell me I owed \$1.7 million in taxes for the year 2000 even though I make less than \$100,000 a year! How can this be? The CPA office that prepared my taxes commented to me:

"This is the most unfair and unfortunate tax return our office has ever prepared. Many officers have verified the accuracy of your return and we believe it to be correct."

I was a habitual saver and lived a very meager lifestyle. At the time I executed the NQ stock options, I lived in a 1,400 sq. ft. house with my wife, a dog and a cat. I drove a 1979 F100 pickup, no air, manual steering, 3-speed on the column, 160,000 miles—worth about \$600. My wife drove a 1987 Olds Cutlass with 224,000 miles. I did not live the life of our executives—I was just an engineer trying to save for a brighter future.

The Cisco stock that I bought declined more than 80%. I sold everything and took out multiple loans to pay the IRS. Because of my prior savings, my meager lifestyle, and the kindness of my bank; the IRS received the money April of 2001. My bank has given me two interest-only loans. Today, I live in a 60 × 14 trailer by myself. My wife and I divorced in 2004. I still drive the same Ford pickup (over 200,000 miles now). Seventy percent of my salary goes to maintaining these loans, which I have been paying for over 4 years now.

This unfortunate situation has taken my financial future from me. I am addressing this letter to you so that you may know how this stealth tax is destroying the lives of so many common people, like me. It is just plain wrong to tax people of all of their assets when they have realized no financial gain whatsoever.

Statement of Larisa and John Bickel, Cedar Rapids, Iowa

Over the past few years numerous articles have been written articulating the impact of the Alternative Minimum Tax. While much effort has been made in providing relief there is still considerable work to be done. Having worked for McLeodUSA, CLEC based in Iowa, since graduation from college I have experienced the roller coaster of the tech boom and bust. While we have been very careful to live within our means we have also been impacted significantly.

We have lived a very conservative lifestyle and thought we were planning responsibly for the future of our family. We have a son who is 7 years old who was born prematurely with a hearing loss and multiple other issues that have required hearing aids (which insurance does not cover), physical therapy, occupational therapy and speech therapy to this point. Because of our prior financial planning and saving, we had always been able to meet his needs financially. Fortunately our 5-year-old son was born without such complications.

In the fall of 2000, we vested a portion of my McLeodUSA stock options for the first time when the stock was at \$18. We borrowed almost \$40,000 to pay for the stock. We did not sell any of the options in anticipation of "holding the stock for 1 year after exercise in order to avoid taxation at the ordinary income on the value at the point of exercise." As a result, we paid approximately \$80,000 in alternative minimum taxes. We were able to pay for about one-third of this out of our own savings, but then had to take out a home equity loan for the remaining two-thirds.

The stock's value plummeted, and the company filed for bankruptcy leaving the stock valued at \$0—leaving us with essentially nothing of value to sell and burdening us with the reality that we took a \$50,000 loan for the alternative minimum tax which is essentially an interest free loan to the government because we can not simply obtain a refund of the overpayment. We also owe \$40,000, the purchase price of the stock, which is now worthless. The reality is that this situation has been devastating for us. We are overwhelmed by the burden of the debt created by paying this tax. Because of paying this tax, we are unable to start a college education fund for our son, provide the financial resources needed to fund the special help he will require during his primary school years, and fund our retirement account. We are forced to live at a barely subsistent level.

We want you to know that this is financially and emotionally devastating to our modest-income family. We thought we were doing everything right to become financially independent and now our reality is far from that, with an incredible debt in store for the future. This alternative minimum tax is devastating to those affected in the modest-income level, as well.

We thank Congressman Neal and others immensely for their efforts to help right this situation. Please let us know if there is anything we can do to assist you in this matter.

Statement of Leroy Lacy

First I would like to thank the Members of Congress for their efforts during the closing stages of the 109th Congress. As one who was intently interested in a particular issue (the tax on phantom income from incentive stock options), I followed the activities during the final days of Congress closely.

I am very appreciative that both houses saw fit to recognize the inequities posed by the AMT tax on options and made a gesture towards resolving the tax burdens associated with that tax. However, I must come back and ask for additional relief in the 110th Congress to follow on from your efforts in the 109th. Those of us who have acquired monstrous penalties and extremely large internist payments are still underwater and there appears to still be no way out.

In 2000, when I was presented with the \$1.6 million tax assessment, it really didn't register with me. I deluded myself with the thought that the government can't proceed with collecting this tax; they'll fix this issue. I felt (and still do feel) that there was so much dishonest and fraudulent activity associated with establishing value of these meaningless stock options that Congress will step in and put an end to all this foolishness. Well that never happened and at the end of the year, I was most taken aback when I received the letter telling me that I had penalties of over a quarter of a million dollars. This was when the magnitude of the issue really hit home. I received a penalty for not paying taxes on stock from stock options of more than twice my annual salary (when I had an annual salary) and there were interest assessments every month that would have made a nice income if I had one.

At the end of the year, the collection arm of the IRS swept down like a giant vacuum cleaner and swept away all my assets as I attempted stop this juggernaut. I'm

at the end of my career and like most of the workers of my generation, I have not saved sufficiently for retirement. With this job at Exodus Communications, I had a chance to get well. I had a financial planner who was supposed to be diversifying my portfolio. I had purchased three houses and had significant equity in those properties and it looked like I would have sufficient resources to get me through retirement without being a burden on my kids or the community. As the IRS swept through all my holdings, it made no dent in the penalties or interest. I still really didn't feel I owed this unfair tax and there had to be a way out. I invested many thousands of dollars (borrowed from family and friends) on tax attorneys, enrolled agents, and bankruptcy firms. I'm sure I invested foolishly in some of these attempts to stop the IRS and its collection before I lost my last real and most important asset, my house. I attempted offer in compromise, tax court and bankruptcy and as I entered each venue, it seems that I got there as they turned away from the taxpayer. My final round with the offer in compromise issue it was ridiculously oriented so that I had to make a downpayment that was so large that I had to sell the house just to make the downpayment.

So at the end of 2006, I was most tired. I had been dealing with the collection arm of the IRS who treated me as a criminal and living on the financial edge trying to keep at least some equity in my home on which to live in my retirement. For 6 years I had to deal with an IRS that seemed to enjoy staging raids on my finances unannounced and levying my wages so that I get a surprise when the paycheck comes well below what was expected.

At the end of 2006, I finally saw some light at the end of the tunnel in the form of the Tax Relief Act extensions. I wrote letters, hoped, followed the proceedings and finally it passed. I was so happy. I didn't quite understand how the law would work, but everyone else was happy and I was sure that there would be some relief for my problems that would come from this Act. However, January 2007 came and nothing seems to have changed. Days after New Years the collection agent was back in my face telling me that I had to sell my house in Ben Lomond or he would seize it. So I put it on the market and it sold and the money's gone and it has made no change in what I owe the IRS. No one seems to have told the IRS that there was relief for these AMT tax issues voted in Congress; they just keep coming.

So I moved my family to Kremmling, Colorado to the home I had hoped would be my retirement home (no one in Silicon Valley would rent to a family that consisted of husband, wife, two dogs, three cats, 14 Chinchillas, and two rabbits). Now to keep the collection agent happy, I have to put that house on the market which I'm in the process of doing. When that's sold, I'm not sure what I'll do, but I can assure you that it won't involve getting rid of the nonhuman members of my family. I've discovered another shocking fact in the form of my inability to find lodgings in Silicon Valley. It seems that the fact that I've never missed a payment to anyone in my 45 years as a worker and homeowner means nothing when compared to the fact that there have been four tax liens against my houses. I'm living in a residence hotel near work because I can't find a landlord that will rent me a small apartment.

So in conclusion, here I am back with my hat in my hand asking for additional considerations by your Committee to help me with problems of penalties, interest, and collections. I have been fighting for the past 6 years attempting to save my most precious possessions in my homes. I can see them slipping away, but I continue to hope that some resolution can be found before my home in Colorado is sold.

Somerville, Massachusetts
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Lisa Szturma and I am writing on behalf of myself and my husband regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of

the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

My husband's company had the good fortune of being one of the largest IPOs ever. However, with the subsequent quickly changing economy in 2000, the stock value significantly and quickly declined. My husband's ISOs instead of being a benefit became a huge tax liability. We paid \$206,000 in taxes on money we never had. Over the last 6 years we have been able to redeem only \$23,000 of our outstanding credit. In addition, now unfortunately due to the phase-out clause included in the recently passed legislation, we can only redeem our outstanding credit if one of us quits our job. A scenario we are considering, but is not our desire.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Lisa Szturma

Cumming, Georgia
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable John Linder
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member John Linder:

My name is Mark Flatman and I am writing on behalf of myself and my family regarding a large AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

When I filed my 2000 taxes in 2001, I found out that I would have to pay thousands more than I thought because I was subject to the AMT tax. In the meantime, the value of the stock that I had exercised had plummeted from nearly \$100/share down to \$10/share by the end of 2000. Selling the stock would not raise enough money to pay the AMT tax. Therefore, I had to dig deep into my personal savings, refinance my home (by pulling out equity) and put off saving for my children's college education. These choices have been very difficult and painful.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's

choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Mark Flatman

Statement of Michael & Jennifer Carrobis, Bedford, New Hampshire

My name is Michael Carrobis. My family and I have been living with the results of our ISO/AMT nightmare since 2001.

Our journey began with the filing of our 1999 Income Tax return. My adjusted gross income for 1999 rose by \$73,800 over 1998, a little more than a 65% increase. Our tax liability rose from \$15,888 for 1998 to \$119,929 for 1999, more than a 700% rise over 1998. When penalties and interest were added the total tax liability for 1999 was over \$152,000, over a 900% increase.

The reason for this increase was AMT. In 1999 I exercised incentive stock options that granted me stock valued at \$274,258. I took the stock and put it into my brokerage account. It wasn't until we filed our taxes that we found that the stock I received was considered income. I didn't sell the stock but it was considered income anyway. To complicate matters the accountant I had doing our 1999 tax return had been going through some problems and delayed the filing of our taxes by about 6 months. All this time (unbeknown to us) penalties and interest was accruing. When we saw our 1999 return in January of 2001 we were stunned. A total of \$22,757 of tax was withheld from my 1999 W2 income. We looked at our tax return and found that we now owed an additional \$97,172. We sold my stock received in 1999 (and some stock from options received in 2000) and paid the additional 1999 taxes (\$97,172) immediately upon filing our return. We were then stunned a second time by a notice of penalties and interest for 1999 (in excess of \$32,000). As stated above, I had also received incentive stock options for 2000. We decided we better move forward as soon as possible with 2000 taxes. When I exercised the 2000 stock options much of the stock was valued at about \$85 per share. I sold the stock from the options in the \$40 per share range. We weren't happy at the stock price dropping by more than half but we thought it was ok since we really only paid about \$20 per share for the stock. We still doubled our money right? Wrong. According to the rules we actually made \$85 per share not the \$40 per share we actually sold it at. According to the rules we didn't double our money we more than quadrupled our money. What? How can that be? How can we be taxed on an unrealized gain? This unrealized gain equated to a tax liability of over \$283,000 for our 2000 taxes.

At this point we did not have \$283,000. We inquired about an offer in compromise. Our new accountant said that the IRS would not accept one because we owned too much, we have a house with a mortgage, a couple of cars and monies in IRA accounts. So in order to pay the 2000 tax bill we liquidated stock in two of our IRA accounts and paid our 2000 tax bill. The story is not over. The monies we took out of our IRA accounts (to pay our taxes) are considered income we received. So our 2001 tax liability was in excess of \$116,000. Today, March 21st 2007, I received a notice from the IRS that we now owe a little over \$320,000.

We have paid over \$500,000 in Federal income taxes for 1999 and 2000. The IRS says we still owe in excess of \$320,000.

Our nightmare started with our ISO/AMT in 2001 (1999 tax year). Hopefully it will end soon.

San Jose, California
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is [your name] and I am writing on behalf of myself and my [husband, wife, family], regarding a huge AMT tax debt that we incurred on "phantom" gains

due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

[I/we] would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

[I/we] would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

[SOME SPECIFICS OF YOUR STORY; NOT TOO LONG; IF YOU HAVE A LETTER ALREADY WRITTEN ABOUT YOUR PERSONAL STORY, YOU CAN SUMMARIZE A COUPLE SENTENCES HERE AND THEN SAY "Please also see the attached letter telling my personal story."]

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at [Your Contact Information] if you have any questions.

Sincerely,

Michael F. Abidi

Payson, Arizona
April 2, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Michael G. Parkin and I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on “phantom” gains due to the application of the Alternative Minimum Tax (AMT) to incentive stock options (ISOs).

I would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. I struggle to express my deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family’s story.

I was able to pay my ISO AMT liability, which resulted in a \$146,000 AMT credit. Although I was able to pay the liability, we eventually had to downsize our principle residence by approximately 60% and shutter a personal business because we no longer had sufficient working capital to continue ongoing operations. The refund (I prefer to use the term refund versus credit) of that money, beginning in tax year 2007, means the difference to me and my family of eating and not eating in the coming years. Compounding the difficulty in raising the money and paying our AMT liability was that the same market conditions that created the AMT “Credit” also left me unemployed and essentially my age (currently 57) left me unemployable. Although Congress has applied the name “The Tax of Unintended Consequences” to the ISO AMT, I feel more comfortable with the name “Evisceration Tax” to describe its affect.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress’s intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

Overall, I have many concerns regarding the total AMT tax structure. In my opinion, it unfairly targets those Americans that shouldn't be asked to contribute more. I seriously question if we (I, the American population, and our Congress) can allow this tax to extend to the tax paying population as current projections forecast it to and the negative consequences it will create.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael G. Parkin

Littleton, Colorado
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Michael Marino and I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

My AMT taxes in 2000 were more than I ever thought I would earn in a lifetime—\$780,000. In order to pay these taxes, I had to sell all of my remaining shares at a very low price, cash in my IRA and children's college funds, and deplete my entire life's savings. The AMT treatment of ISO exercises applies to money which never existed—phantom income. As such, it can, and did exceed my lifetime income. I will be turning 48 in a couple of months and have been working since high school, developing and then selling software, so lifetime income at this point is non-trivial. The only way I can recover from this is through AMT Relief.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise

that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael M. Marino

Reynoldsburg, Ohio
March 22, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Michael Powers and I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I just entered this year as a surprise encounter with AMT. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

I have been fortunate to be able to complete my annual tax filing using commercially available software and some common sense. For the tax year 2006, I became subject to AMT because of \$15,000 in Incentive Stock Options from my company.

Not only did I have to pay my rightfully due tax on that amount, it increased my tax liability by \$3,000 for this year. I am no longer able to use the software and now have to use a Certified Public Accountant to make sure I am filing correctly, an additional cost that isn't even deductible under AMT. We cancelled our vacation and are planning on paying an additional \$200 extra per month in taxes to cover 2007 AMT.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael Powers

Santa Cruz, CA
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My family was among the many affected by a large AMT tax burden incurred due to "paper" gains triggered by the Alternative Minimum Tax treatment of incentive stock options (ISOs).

We would first like to thank Congress and the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee for the ISO AMT Relief

passed last year. This relief marks the beginning of the end to a financial hardship that my family has dealt with since 2001.

We respectfully ask for your continued support particularly due to the income phase-outs that leave many families such as ours with limited or perhaps no relief. These are discussed below, but first I would like to briefly share our story.

We were assessed tax for multiple times our annual wages due to paper gains on ISO options and were forced to liquidate our college savings and take a second mortgage in order to pay our tax bill, which we did, resulting in a tax credit large enough to fund attendance at any university in the nation. But we have not been able to recoup this credit due to the nature of the AMT tax code, and the college years are rapidly approaching.

Removing Relief Phase-out for American Families. We continue to be affected due to a significant change that was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves us with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. Ironically, the phase-out provision creates a situation whereby we would be financially better off by quitting our jobs, reducing our effort or hours, and/or foregoing diversification. Such choices would seem detrimental to our family, employers and society as our ability to generate income AND additional taxes is thereby diminished.

Addressing Ongoing Liability, Interest and Penalties. Many other families across the country are still embroiled in offers in compromise. We are hopeful that the IRS will not also deny relief to those that have been unable to pay. Many others were forced into offers in compromise that are subjecting them to ongoing monthly payments that are preventing them from caring for their families in a manner commensurate with their talents and hard work. We would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* affected citizens.

I want to once again express our gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please go one small step further and allow us to recoup the tax credits we deserve without putting our careers and lives in reverse in order to avoid the phase-outs. Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael Sullivan

Statement of Mike Brown, Cedar Rapids, Iowa

My name is Mike Brown and I am writing on behalf of myself and my family, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

After the crash of the telecom industry which not only included us paying over \$100,000 in taxes to the government on unearned profits from stock options, I lost my executive position with the company. My wife and I have invested our savings into small local companies. We run two of those companies and have invested in two others. We have pulled money from our retirement accounts to make this happen, paying the associated taxes and penalties. We're trying to make a go of it here in Cedar Rapids, but if we have to continue to dip into our IRA/retirement savings to do so, we will be forced to move to other areas of the country to make more money. Getting our unfairly paid taxes back, WITHOUT INCOME PHASE OUT provisions would go a long way in allowing us to stay in the community we love where we are creating jobs and giving back to the community.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Statement of Mike Wertheim, Oakland, California

I am an average middle class employee. In 2000, I worked for an Internet company called Critical Path. I received incentive stock options as part of my compensation. I exercised the stock and have not sold it. No one ever advised me to sell the stock before the end of the calendar year to avoid certain Alternative Minimum Tax problems. By the time my accountant prepared my income tax bill for 2000, the Alternative Minimum Tax on my stock was \$64,000. This is despite the fact that the current value of the stock at the time was only \$8,000 (and is now worth only \$2,000). The \$64,000 tax bill far exceeded my net worth.

I paid the entire \$64,000 tax bill on April 15, 2001 and generated a \$64,000 tax credit, by liquidating savings and borrowing money from my family. At this rate, it will take me over 20 years to use up my AMT credit because the tax code allows me to apply only \$3,000 of my AMT credit towards my income tax each year. Essentially, I have been forced to make a \$64,000 20-year loan to the government interest-free.

Some day my wife and I would like to buy a house and send our daughter to college, but both of those plans are on hold until we can regain our financial standing. After my parents loaned me money to pay my tax bill, the rest of the family is feeling the financial pain, too. My parents, who are both in their 60s, no longer feel that they have enough money for their retirement. All these changes—to pay tax on income I never actually received.

Statement of the Miller Family

Dear Chairman Rangel and Committee Members: My name is Rita Miller and I am writing on behalf of my husband, Arthur W. Miller, Jr. and myself. It is regarding a huge tax debt that we incurred on phantom gains that were created by the application of the Alternative Minimum Tax (AMT).

In November 1997, I took a job in Linthicum, Maryland as an Administrative Assistant for a start-up Internet security company, VeriSign, Inc. We incurred a huge tax debt starting in the year 1999 by exercising Incentive Stock Options (ISOs) I received while working for VeriSign, Inc. We read everything we could about stocks and taxes and everything pointed to exercising and holding the stock for long term capital gains. We enlisted the help of a reputable financial advisor. The advice from the financial advisor was to exercise and hold the stock so as not to incur the higher short-term capital gains rate. But unbeknownst to everyone, if you exercise and hold onto stock for the long term and carry it over a tax year, a tax called AMT (alternative minimum tax) can apply, and it did.

All other assets, like real estate and stock purchased on the open market, are taxed based on the value at the time of the sale, when you actually receive a profit, not at the time of the purchase. Why aren't we just taxed when, and if, we sell the stock? That then would be a *legitimate profit made* and a *legitimate tax due*.

Our total Federal taxes due from the years 1999 through 2002 were \$448,873. We managed to pay \$314,784 by selling whatever shares of stock we had. This is not even to mention the amount that we owed to the State. We negotiated with the IRS and went on a payment plan to pay the remaining \$134,089, likewise with the State. We never missed a payment until both my husband and I lost our jobs within a few months of each other in the year 2002. I was unemployed for over a year, my husband is still unemployed. I'll be 60 this year and my husband will be 62.

We submitted several OICs and Appeals and the IRS rejected them all—stating that we had a house, a car and some retirement money and if we sold the house, the car or turned in the retirement, we could pay the “phantom taxes” we owed. We came to realize that after filing subsequent years taxes, that the IRS now “**owes us**” over \$115,267 in credits. We owe them \$117,480. We filed an OIC asking the IRS to accept our credit as payment. It was rejected. The last OIC we offered \$30,000 (provided by a family member) and our credit to bring our tax debt to a “paid-in-full” status. Can you imagine our disbelief when we received the notice that the IRS is rejecting this offer too? They accused us of using “delay tactics”. The IRS wanted us to pay them in full, **first**.

A travesty occurred in our lives that added additional hardship. My husband, who has been unemployed since August 2002 and spent more than a year of processing for employment with the Department of Defense, was notified that the DoD was withdrawing their offer of employment due to the outstanding IRS debt. They said that the tax issue “brought into question his credibility and trustworthiness.” That he didn't meet their suitability criteria. At almost 60 years old where is he going to find another opportunity like the one with the DoD? We are hard-working, trustworthy and honest people. We have never avoided paying taxes and have always engaged in honest financial practices. We understand the AMT was put into place to make sure that the very wealthy people paid their fair share of taxes, but it's not working the way it was intended. There has to be some consideration for people like us, those of us that were caught in the AMT trap.

This year we celebrated our 42nd wedding anniversary, but for the past 7 years we have been living a nightmare. We fear that one day when we open our mailbox there's going to be a letter from the IRS stating that they are taking our home or making us liquidate our retirement to pay them taxes that are unjust and unfair.

We are currently preparing a submission of another OIC, in hopes that recent legislation changes have opened the doors for negotiating the application of the credit and the waving of interest and penalties.

We respectfully seek the understanding of this Committee and plead with you to help rectify this wrong.

Tax Nightmare

Jay Hancock
March 18, 2007

Rita and Arthur Miller used to believe that honesty, hard work and filing taxes on time would keep you on society's good side.

They believed this until about 2001, when, in the parallel universe known as the alternative minimum tax, the government began seeking more than \$100,000 in tax on income that the couple never received.

Six years later, the amount has doubled, and the couple will probably have to liquidate their retirement savings and maybe sell their townhouse to pay the bill. In a little-noted epilogue to the dot-com boom of the 1990s, the Millers are among thousands of families that the Internal Revenue Service says owe tax on phantom stock market riches.

Maybe more than anything else, their situation demonstrates the brutal unfairness of the alternative minimum tax, which Congress is considering reforming because it now hits far beyond the super-rich it originally targeted.

Remember all the paper profits you lost when the Nasdaq crashed? Don't feel too bad. The Millers not only lost their dot-com quicksilver; thanks to the AMT they owe tax on it, too.

"Our hearts couldn't take it any longer," Rita Miller, 59, says of the moment 2 years ago when they caved in and agreed to pay the tax. "We said, 'That's it. We'll cash whatever. We'll turn in our retirement. Just end this nightmare.'"

The nightmare, however, continues. The IRS doesn't just want the \$117,000 the Millers are supposed to owe on income that never existed. It wants more than \$200,000, including interest and penalties, and it has rejected every settlement offer they have made.

Unexpected riches

Art and Rita Miller never figured they would even make hundreds of thousands of dollars, let alone owe that much in taxes. They had never owned a share of stock or a mutual fund. They didn't even have much of a savings account.

But they earned enough to move out of Philadelphia, where they married when she was 18 and he 20, and raised three boys in New Jersey. Jobs took them to Buffalo and Albany, N.Y., and then, in 1997, Catonsville, when she signed up as an administrative assistant with a Linthicum branch of VeriSign Inc., a Web security company.

Without knowing it, she had walked into a money factory.

Like every other young Internet company in the 1990s, VeriSign distributed stock options in dump trucks to even low-level employees. After VeriSign shares rose 750 percent in 1999, the Millers began to realize they might become rich. Arthur Miller, 61, calculated the couple could someday be worth \$3.8 million if the stock didn't tank.

They knew they were over their heads. So they hired a financial adviser and a lawyer, and the advice was unequivocal: Exercise the options as soon as possible, but hang onto the shares, because they would get tax advantages that way, and who knows how high they'd go, anyway?

It was a doubly terrible idea.

The Millers scheduled option exercises on their calendar, like haircuts. Each time an option became exercisable, they called the broker, had him sell just enough shares at the market price to cover the exercise cost, and saw their paper worth go higher and higher—mostly in VeriSign stock. Options' value depends on the difference between their exercise price and a stock's market price. Rita Miller was getting thousands of options with exercise prices of \$4 and \$6 a share, and VeriSign's stock was heading toward \$250. Under the regular tax code, for the kind of "incentive" stock options that she held, that value would not have been taxed until the VeriSign shares were sold. But under the wacky AMT rules, holding shares after the end of the calendar year triggered a large tax based on the difference between the exercise and market prices at the time of exercise. (Incentive options are different from the "nonqualified" options most employees get.) Arthur Miller says their tax lawyer had no clue about this. But VeriSign tried to educate employees, and sometime in early 2001, the couple realized they were going to have a very large tax bill. Problem was, they no longer had the wherewithal to pay. Like every other Internet stock, VeriSign was crashing and taking the Millers' paper wealth with it. By March 2001 VeriSign had plunged back to \$40, en route to \$6, but the tax bills stayed stratospheric. The AMT system allowed people like the Millers to recoup excess stock-option liability by taking credits against tax owed in future years—but only up to \$3,000 a year. The Millers couldn't pay the whole AMT without selling their house or cashing their retirement annuities and incurring big penalties. And even if they had, she says, "we were going to be 97 and 99 when we got all our credits back, and I doubt I would have lived that long." Thus the ordeal began. "I know, personally, dozens of people who have lost their homes over AMT stock-option taxes," says Tim Carlson, president of the Coalition for Tax Fairness, a lobbying

group organized to seek relief for people like the Millers. There have been at least two suicides, a coalition spokesman says.

Victims of honesty

One of the many ironies, Carlson added, is that VeriSign and other companies didn't disclose incentive-option exercises to the IRS, so the agency wouldn't have even known about them if recipients hadn't reported them. "The people that are affected by it are your hard-working, salt-of-the-earth Americans who always pay their tax and who are impeccably honest," he says. In 2002, the Millers lost their jobs. VeriSign had hit tough times, and so had International Business Machines Corp., which employed Arthur Miller. Worse, Arthur Miller says he lost a potential new job because the employer thought he was a tax cheat. They had no income, and the IRS wanted a six-figure check.

They had salvaged some of their dot-com wealth, cashing VeriSign shares and buying annuities tied to the stock market. The annuities, too, had dived in value, but they were still worth \$200,000. Even so, redeeming them to pay tax would have involved huge early-withdrawal fees and separate tax penalties.

The IRS attached liens to all their assets. Letters came and went. Interest and penalties mounted. The Millers didn't dispute they owed the tax, even though the income on which it was based never materialized. But they didn't think they should pay penalties and interest, which brought the bill to more than \$200,000. Couldn't they compromise? No, the IRS said. What the couple really wanted was to see a human at the agency. If they could just explain the crazy situation face to face, they figured, a reasonable person would see the light. They counted the days to their meeting with the IRS officer, in 2005. "She was wonderful," Rita Miller recalled. "She was really sweet. We told her, 'We'll cash in our retirement and pay the just debt that's due'"—something like \$130,000 at the time. "But we want you to waive the penalty and interest. It's not fair. We'll pay the debt and let's end this nightmare." She got up and hugged me. She said, "I'd like to see if I can work a miracle for you." That's the word that came out of her mouth. Of course she had to take it to her superiors. "No," the superiors said. The IRS declined to discuss either the Millers' case or the incentive-option AMT trap in general. But in a recent memo filed on their case in U.S. Tax Court, the agency essentially says that the law is the law and the Millers should sell whatever assets are necessary to pay their tax, penalties and interest in full. "By your own admission, you have sufficient resources to pay these outstanding liabilities, but feel that you should not be required to do so," the agency wrote them. "The IRS will not accept any offer from you under these circumstances."

The Millers are especially exasperated because the IRS owes them almost as much money as they owe the agency. The credits they're due for AMT tax liabilities on VeriSign stock that later collapsed are \$115,000; the principal balance of their delinquent tax is \$117,000. Why not just call it a wash?

No, the IRS said. Pay the tax and penalties now, it said, and take the credits year by year, in thimblefuls, over the next three decades.

Congress, under much pressure—including correspondence by Rita Miller with the House Ways and Means Committee—has finally gotten into the act. Last year it accelerated the credit schedule for people who paid AMT tax on incentive-option exercises but never realized the income. Such taxpayers can now recoup their excess tax in 5 years.

But that change doesn't much help the Millers, who can't pay all the tax in the first place. She has found a new job, but he is still unemployed. And it doesn't affect penalties and interest the IRS assesses on delinquents. Now that Congress has acted, Coalition for Tax Fairness President Carlson hopes the IRS will relent and start settling cases such as the Millers' in a reasonable manner. "Stop the madness," he says. "Stop the collection process. And don't charge interest and penalties on amounts people weren't able to pay because the law wasn't working properly. Let's let people get on with their lives. . . . We want to give the IRS a chance to do the right thing." But the IRS had a chance to do the right thing for 5 years, and didn't. Congress ought to free victims such as the Millers from paying any interest or penalty on their back taxes. And then it ought to throw the entire AMT into the garbage.

National Potato Council
 March 28, 2007

The Honorable Sander M. Levin
 House Ways and Means Trade Subcommittee
 U.S. House of Representatives
 1102 Longworth House Office Building
 Washington, DC 20515

Dear Chairman Levin:

On behalf of U.S. potato growers, I am writing to provide comments for the record in response to the Ways and Means Committee's March 20 hearing on the U.S.-Korea Free Trade Agreement. The National Potato Council (NPC) represents potato farmers from every large potato producing region on legislative and regulatory matters. The NPC remains committed to providing a unified voice for the U.S. potato industry on national legislative, regulatory, environmental, and trade issues to promote the increased profitability for growers and greater consumption of potatoes.

The U.S. potato industry strongly supports the completion of a U.S.-Korea Free Trade Agreement as long as the final agreement results in significant additional access for U.S. potatoes and potato products in the South Korean market. South Korea is currently our fifth largest export market for frozen fries, with more than \$22 million exported in 2006. It is also an important and growing market for both dehydrated and fresh potato exports. We believe that a successful Korean FTA should result in significant increases in exports of all U.S. potato products and will guarantee market share for U.S. potato products against our primary international competitors, Canada, New Zealand, Australia and the European Union.

The U.S. potato industry has four priorities for the U.S.-Korea Free Trade Agreement.

Frozen Fries (H.S. 2004.1). Korea currently applies an 18% ad valorem MFN tariff on U.S. fry exports. Although Korea is our fifth largest fry export market, this 18% tariff hinders our ability to expand the market. The U.S. potato industry seeks the immediate elimination of this tariff as a result of the U.S.-Korea FTA.

Korea has no fry processing facilities. Moreover, given that Australia and Canada, major fry producing competitors, have expressed an interest in their own Korean FTAs, it is vital for U.S. fry producers that this tariff be eliminated. A zero fry duty would ensure that the U.S. remains the major fry supplier to Korea and yield a significant increase in fry exports.

Dehy: Korea has the potential to be a significant export market for U.S. dehydrated potato exports. Unfortunately, that potential is limited by Korea's quota system. Traditionally, pure dehy flakes, pellets, and granules are exported under Chapter 11 of the Harmonized Tariff System code (H.S. 1105.2). Korea currently has an overly restrictive tariff rate quota for this tariff line. Exports of 60 metric tons (the equivalent of two ocean-going containers) can enter under the quota and face a 5.4% tariff. Once that quota is filled, the tariff increases to a prohibitive 304%. Furthermore, this quota volume covers imports from the entire world, so essentially Korea applies a 304% tariff on all dehy products.

In order to avoid this 304% duty, U.S. dehy shippers export a blended dehy product under Chapter 20 (H.S. 2005.2) with an applied 20% ad valorem tariff (below the 54% bound rate). While there is no quota here, in order to qualify for this tariff line as a processed good, Korea requires that the dehy products be blended with at least 10% other components. U.S. shippers have been forced to create dehy blend formulas to meet the Korean requirements to export under this tariff line and avoid the quota. Such blending limits the end use of the product in Korea.

The U.S. potato industry is seeking the significant expansion and eventual elimination of the Chapter 11 quota on dehydrated potatoes, and the elimination of the Chapter 20 processed dehy tariff.

Fresh Potato Quota: Like the dehy quota, Korea has established a restrictive TRQ for fresh potatoes. Korea allows the importation of 18,810 metric tons of fresh potatoes every year. The in-quota duty is currently duty free, but the over-quota duty is again a prohibitive 304%. U.S. fresh potato growers must share this quota with other countries, especially Australia. The Korean government also divides the quota into two categories, one for chipping potatoes destined for chip processing and one for fresh potatoes sold at retail. It is unclear whether these distinctions are allowable under the WTO.

Korea is a promising market for U.S. fresh potato exports. As recently as 3 years ago, it was the third largest and fastest growing export market with over \$1.7 mil-

lion in sales. The industry believes that the Korean market has enormous potential for fresh potato sales.

The U.S.-Korea FTA provides an excellent opportunity to address the restrictive TRQ. The U.S. potato industry is seeking a separate tariff line for chipping potato market access, which would allow the U.S. to ship their product at certain times of the year duty free outside the quota. The industry also wants this seasonal distinction phased out in the future so duty free access can occur year round for chipping potatoes. The industry is also seeking a significant expansion of the table stock TRQ, which would allow for additional shipments of U.S. table stock potatoes to Korea.

Fresh Potato SPS Issues: Although U.S. potato producers have recently had some difficulties with Korean quarantine standards, Korea's National Plant Quarantine Service has been working with USDA and the U.S. industry to address these issues.

The U.S. government can assist with fresh potato quarantine issues through the FTA by facilitating the approval of additional states allowed to export to Korea. Although major potato producing states such as Idaho (temporarily suspended), Washington, Oregon, Wisconsin, Michigan, Minnesota, and Maine are approved for export to Korea, other potato producing states such as North Dakota, Colorado, California, New Mexico, Arizona, and Pennsylvania are prohibited from exporting to Korea due to concerns over five pests.¹

The U.S. industry believes these pests either do not exist in the states in question or can be addressed through simple mitigation measures. In the North Dakota case, the restriction is unjustified. North Dakota and Minnesota are considered one growing region. Korea allows exports from Minnesota, but not from North Dakota. The U.S. potato industry would like to see the states listed above approved for export to Korea as a result of the Korean FTA.

The National Potato Council and U.S. Potato Board have worked with USDA's Animal Plant Health Inspection Service (APHIS) to provide Korea requested information about each state in the hopes that they can be approved in the near future.

The U.S. potato industry stands to benefit from the completion of the U.S.-Korea Free Trade Agreement. A successful agreement will result in increased potato sales to Korea and will maintain U.S. potato market share within Korea. Failure to complete an agreement could result in our competitors finishing a FTA with Korea and taking market share from the U.S.

The U.S. potato industry has been actively involved in the talks through frequent consultations with the U.S. Trade Representative's Office and USDA. The industry also had an official in Seoul in late March to support the U.S. negotiators at the talks. Please feel free to contact the National Potato Council should the Committee have any questions regarding the NPC's support of the U.S.-Korea Free Trade Agreement.

Sincerely,

John Keeling
Executive Vice President and CEO, National Potato Council

Chantilly, Virginia
March 22, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

The following information below is testimony that I presented **before the House Committee on Ways and Means, Subcommittee on Oversight, Washington, DC, in a formal hearing on June 15th, 2004**. Since then, I have continued to hope for complete relief of my AMT ISO problem in the form of legislation, and I am encouraged by the progress realized in the recent bill. However, as I have not

¹*Peronospora tabacina* (tobacco blue mold), *Synchytrium endobioticum* (potato wart), *Globodera rostochiensis* (golden nematode), potato yellow dwarf virus, and potato spindle tuber viroid.

been able to pay the tax for my ISO related AMT, the ever growing **penalties and interest** are of great concern to me, and a source of much stress as the years progress.

Further, as I live and work within high technology industry here in the “Dulles Corridor” of Northern Virginia, I am hindered by the **income phase-out provision** that was added to H.R. 3385, which makes it impossible to find timely relief for the AMT ISO problem that I have been facing now going on 5 years.

To better understand the background related to my personal story, please review my previous testimony as noted below, and as documented on the Ways and Means hearing archives: <http://waysandmeans.house.gov/hearings.asp?formmode=printfriendly&id=1631>.

Thanks for all your efforts to date, and please do not hesitate to contact me on this matter.

Best Regards,

Nina Doherty

Mr. Chairman and Members of the Committee: My name is Nina Doherty and I would like to first thank you for the opportunity to speak with you today.

I am a married working mother of three living in a modest Northern Virginia suburb with my husband of 17 years. Today, I work full time for a small software company. I am sharing my story with you in the hope that it will shed light on how the Alternative Minimum Tax treatment of Incentive Stock Options can have a devastating impact on average hard-working people like me.

In 1994, I became the first employee of a small start-up telecommunications company. Part of my compensation included Incentive Stock Options. Seven years later, I found out to my huge shock that there could be an egregious impact from exercising Stock Options due to unintended consequences of the Alternative Minimum Tax.

Back in March 2000, before I learned about the Alternative Minimum Tax, I exercised some stock options and it appeared that all my hard work and sacrifice in working for a start-up would pay off. My company was going public as many did at that time, and it was everyone’s expectation that the stock value would remain stable and perhaps even grow. Unfortunately, shortly thereafter, the stock market tumbled and my “paper” stock value was reduced to nothing. Despite the dwindling stock value, I never thought to sell them even after my restrictions lapsed in September 2000. I continued to hold onto my stock because I was told by my financial advisor before I ever exercised any options that due to the way the law was written with regard to capital gains tax penalties, it was more beneficial for me to hold it for more than 1 year.

In April of 2001, while on a Girl Scout trip with one of my daughters, I got a call from my accountant about the taxes he had just prepared. He told me that because of the Alternative Minimum Tax, I owed a lot of money, but he didn’t want to tell me how much until I got back into town. Alarmed, I asked him to tell me right there and then—and that is how I found out that I owed tax equal to 100% of our annual family income! I was dumbfounded, and quite frankly, so was my accountant. Now my family is facing potential financial ruin as a result of this massive penalty.

Unfortunately, the highly complex nature of the Alternative Minimum Tax code befuddled both my highly trained financial advisor and my accountant, a situation affecting family after family across this country.

And it wasn’t just complicated code that led me to hold onto the stock. The spirit and intent behind the *incentive* in an Incentive Stock Option is that employees like me are encouraged by law to hold onto our stocks for a longer period of time, to help our companies grow by investing in the future. Certainly, the intent was NEVER to hurt the very people that contributed to a company’s success. Despite this, countless families are facing financial ruin due to the ISO AMT issue—mine is not a unique story.

The big problem with paying the AMT is that the tax payment is simply a prepayment of tax. When this law was written in the sixties, the volatility of the stock market was not anticipated by Congress and there was no evidence at that time that prepaying this tax would create hardship. Unfortunately, many families like mine cannot afford to prepay this tax. Because there was no actual gain for victims like me, this tax will generate a useless tax “credit,” meaning that our prepayment of this tax is nothing more than an interest-free loan to the government. By today’s

law, we can only recover the tax prepayment in credits at \$3,000 per year, which for our family means 30+ years—for many people the credit will well exceed their life expectancy.

Recently, the IRS levied our bank accounts, seizing \$30,000 that my husband had in savings from a loan against his 401(k). This money was needed to do repairs on our 10-year-old home and replace our failing minivan. Next we received official notice that there was a Federal lien filed by the IRS on any and all property that we own. With this and the past 3 years of worry about this problem, there has been terrible strain on my family and my marriage. Every day this issue is like a dark cloud over our heads and we wonder if we should just declare bankruptcy.

My family and I respectfully urge those of you on the Committee to take immediate action on correcting this injustice, through a repeal of the AMT/ISO provision, or through targeted and principled measures that will help those of us currently facing this problem, and also prevent similar results from occurring in the future. For many families like mine, time has run out: The IRS is enforcing the strict letter of the law—threatening to take our homes and retirement funds to collect the money despite the fact that we never had any actual gain.

Please don't allow this injustice to continue. Taxpayers deserve fair treatment in connection with simpler rules, and we appreciate your current consideration of a solution that is fair and just.

Again, thank you for your time.

Nina Doherty

Mountain View, California
April 5, 2007

House of Representatives
Committee on Ways and Means
Washington, DC

Dear Honorable Representatives,

I'm writing to you today to ask for your support in reforming the Alternative Minimum Tax.

Like many other hard-working American taxpayers, I was a victim of collection action by the IRS on taxes I could not pay on income I never realized by way of exercising incentive stock options at the time of the 2000 stock market crash. My case was particularly drastic. In tax year 2000, I was assessed a tax bill of more than \$1 million, after having made estimated payments to the IRS in excess of \$400,000 that year. The final tax bill was greater than my net worth, and 10 times my annual gross income.

After the events of the past 6 years, my status with the IRS (reflecting prior year payments and subsequent amended returns) includes a capital loss carryover of more than \$300,000, a minimum tax credit carryforward of more than \$730,000, and an AMT capital loss carryover exceeding \$3 million. I have yet to have these amounts explained to me in terms that a layman can understand, but it's clear that the IRS withholds a very substantial amount of money in the form of tax credits, and there are additional amounts that can be of potential benefit in the future.

However, the tax credits and other amounts did not impress the revenue agents handling my case. They proceeded with their collection actions. The results of their actions included:

- The liquidation of all of my investments, including retirement savings.
- The abandonment of my girlfriend's mother to the elderly health care system, where she promptly died.
- The end of a 12-year relationship.
- The sale of my home under threat of foreclosure.
- Tax lien on my personal effects.
- Garnishment of my salary.
- Chapter 7 bankruptcy.

In May of last year, the IRS opted to release the tax lien on my personal effects, which have little or no value. That marked the end of a 5 year nightmare, and I'm able to start over from scratch at age 45, hoping to build sufficient assets to retire above the poverty line with adequate health care.

The recent tax extenders legislation passed into law might allow me to get some of the money back in a timeframe that would be useful. My tax attorney explains

that, until the new law was passed, the IRS had no legal basis to continue withholding these tax credits from me, but the law gave them wide latitude to adopt a refund schedule policy. Until this past tax year, the IRS' policy allowed the money to be refunded at a rate of \$3,000 per year, which seems rather inequitable. The new legislation law requires the IRS to refund a larger portion of these credits over a shorter period of time.

However, there is a limit to the benefit of the new law. In my ongoing effort to rebuild my life, I'm in the process of purchasing a starter home in a working-class neighborhood. It is in fact the least expensive single-family home having an occupancy permit within 20 miles of my employment that was available at the time of my offer. The cost of housing in this area (Silicon Valley) is reputed to be the highest in the country, and the cost of the mortgage alone is well over half of my take-home pay, even though my salary approaches the income limit that begins to reduce the benefit of the new refunds. So I'm in the awkward position in which I cannot (yet) contribute to a 401K plan, but at the same time I cannot accept bonuses or raises from my employer despite their great satisfaction with my performance. I may even have to reduce or eliminate a second part-time employment.

I encourage you to introduce new legislation to halt this type of abuse: I recommend that the IRS be compelled to apply existing tax credits to a taxpayer's assets as part of the offer-in-compromise program. Had this been in existence, I might not have lost some of the things I did during these past 6 years, and a life might have been spared. By avoiding chapter 7 bankruptcy, my creditors also would not have lost a significant amount of money, which I could have eventually repaid.

Even better would be to repeal the alternative minimum tax, unifying and simplifying the tax code. Or at least make it impossible or illegal to assess taxes in excess of a person's net worth in the absence of tax shelters. Collection of such taxes is, in my opinion, a violation of the government's constitutional right to collect reasonable taxes, and a citizen's constitutional protection against unreasonable seizure.

If you or your staff wish to discuss this matter further, please contact me.

Many thanks in advance for your support.

Sincerely yours,

Paul M. Sander

Manassas, Virginia
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Rich Verjinski and I am writing on behalf of myself and my wife, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

I ended up paying over \$220,000.00 in ISO ATM liabilities in 2000. I fortunately had the money to pay the IRS at that time (due to an unrelated windfall). I was so happy to see the relief legislation pass earlier this year, but very disappointed in the income phase out that was part of the bill. Because of the current phase out,

I will get NO relief for the foreseeable future. This phase out unfairly targets families like mine, who live in high-income parts of the country.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me if you have any questions.

Sincerely,

Rich Verjinski

Scottsdale, Arizona
April 4, 2007

The Honorable Chairman Richard Neal
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal:

First and foremost I want to thank you, your staff and the Members of the Ways and Means Committee for the ISO AMT Relief that was passed late last year. This legislation goes a very long way in correcting the unfair tax on ISO's. I am requesting your continued support for rectifying ISO AMT interest, penalties and phase-outs.

While I was not impacted by interest and penalties because I had the ability to timely pay my AMT, I strongly believe it is an element of legislation that needs revision. I have read horror stories of citizens who were financially destroyed by the interest and penalties from this unfair tax. I urge you to provide full relief to the ISO AMT victims.

An area that may impact me is the phase-out portion of the legislation. I have been fortunate to pick my life back up and am building a successful business. If my business continues to grow—which is what I am focused upon—I run the risk that I might not receive a refund of my AMT due to income phase-out rules.

The logic of the phase-out eludes me.

- I paid an unfair tax in the form of ISO AMT,
- Then legislation last year recognized that it was an unfair tax in need of correction,
- But I am not entitled to relief if I am a successful and productive taxpayer and citizen.

The implication that unfair taxes are acceptable for successful taxpayers doesn't sit well with me. I have consistently paid my taxes—and actually paid over \$2 million in Federal taxes during my high earning years. And I look forward to paying fair taxes. But please help provide full relief for the unfair tax of ISO AMT.

Sincerely,

Robert M. Korte

Ely, Iowa
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Ron Speltz and I am writing on behalf of myself and my wife June and four children (Alison, Sydney, Angela and Sawyer), regarding a huge AMT tax debt that we incurred on “phantom” gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years.

My family and I would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

The IRS is continuing to pursue collection on amounts we have been unable to pay, even though—through incurring massive personal debt—we have to date already paid more than \$160,000 in ISO AMT prepayment tax. The full Federal ISO AMT tax of over \$205,000 was imposed on stock that we bought for around \$30,000 and sold for \$1,600 dollars.

The stress continues year after year with liens on our home; the fear of wage garnishment; ongoing debts incurred as we tried to pay as much of the ISO AMT liability as possible; and the depressing thought that with mounting interest and penalties we may never get to the point where we are free from this unfair burden.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare

that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive.

We personally know people who have worked hard for years and invested thousands of dollars of their personal money to bring about change in the ISO AMT law, and who will now be left off the relief even though they, like us, need the relief to get back to a position of financial health. This situation is totally puzzling to us. We cannot see any policy justification for people to be treated unfairly and ruined financially with hugely disproportional tax burdens because they make more than a specified amount of money.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at the number below if you have any questions.

Sincerely,

Ron Speltz, June, Alison, Sydney, Angela and Sawyer

Dunwoody, Georgia
April 5, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Phil English
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Sally Foster and I am writing on behalf of myself and my 82-year-old mother of whom I am the sole support of, regarding a huge AMT tax debt that I incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs). I am represented in Congress by the Honorable Tom Price of the Georgia 6th District.

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

In March of 1997, I took a job as the Vice President of Customer Support with a small software company in Atlanta, GA called Clarus Corporation (formerly SQL Financials, Inc.). The company gave Incentive Stock Options (ISOs) to the employees as a means of being competitive in the marketplace with other firms and also to

provide the employees with an opportunity to become shareholders of the company. I held various positions of responsibility over the years with Clarus Corporation and ended my tenure with them as a General Manager of the business. I departed Clarus to become a President and CEO of a dot.com company in November 1999. At the time of my departure from Clarus, I had 18,000 ISOs priced at \$3.67 and I had to exercise them within 90 days of my departure or they would be forfeited. I consulted with my tax accountant at the time and he advised me that I should exercise them in January 2000 which I did. I asked him to advise me of all the tax ramifications of exercising the options and he never mentioned AMT implications of exercising the stock options.

In March 2001, my tax accountant called me and said that my AMT liability was over \$520,000 plus penalty and interest based on the fair market value of \$1,584,000 (18,000 options at \$88.00 per share) on the date I exercised them. By this time the value of those exercised options had already become worthless. Although, I have tax credits I will never be able to use the majority of them during my lifetime. I have always been a responsible taxpayer and have always paid my taxes on time and in full. I have been financially ruined and it does not appear that I will live long enough to utilize the tax credits. I am the sole support for my 82-year-old mother and the stress that this liability has caused me and my family over the last several years has been enormous. Your assistance in rectifying this injustice would be greatly appreciated.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families. I applied for an offer in compromise but was rejected.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a relative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at the address and phone number below if you have any questions.

Sincerely,

Sally Foster

Aloha, Oregon
 April 5, 2007

The Honorable Chairman Richard Neal
 The Honorable Ranking Member Phil English
 Select Revenue Measures Subcommittee
 1102 Longworth House Office Building
 Washington, DC 20515

Dear Chairman Neal and Ranking Member English:

My name is Sheila Weaver and I am writing on behalf of my husband, Ron Weaver, and myself, regarding a huge AMT tax debt that we incurred on "phantom" gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs).

We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief passed last year. This relief brings a ray of hope and the beginning of the end to a financial nightmare that my family and I have been living for nearly 7 years. We struggle to express our deep gratitude for the Relief Legislation, which takes a big step forward to restoring fair return of tax overpayment credits that were generated when the stock value plummeted and ISO AMT tax became grossly disproportionate to any gain actually made on the stock.

We would respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. These issues are (i) ongoing ISO AMT liability and associated interest and penalties, and (ii) the income phase-outs that leave many families with limited or no relief. These are discussed in more detail below, but first I would like to briefly tell my family's story.

I worked for Intel Corporation and received Incentive Stock Options as part of my compensation package. We paid our share of the AMT but it was an enormous personal struggle for us. Luckily, we didn't have to lose our house or file for bankruptcy, as I know many others have had to. This had a huge impact on our children's college education. We have only recouped a very small portion of our AMT credits over the last 6 years.

Addressing Ongoing Liability, Interest and Penalties. Many ISO AMT liabilities were so incredibly disproportional to actual gain, that thousands of families across the country are still, 6 years after being trapped by ISO AMT, embroiled in offers in compromise. I am hopeful that the IRS will see that Congress did not intend to provide relief to people who were significantly harmed (but were somehow able to pay), but deny relief to those that were so completely devastated by the unintended consequences of the ISO AMT provisions that they have been unable to pay. In addition, many families had no choice but to enter into devastating offers in compromise that are subjecting them to crushing ongoing monthly payments that are preventing them from properly caring for their families.

I would respectfully request your help in instructing the IRS to fulfill Congress's intent to provide relief to *all* ISO AMT victims, and end the collection nightmare that has been unfairly plaguing hard-working families trapped by ISO AMT. Families who have suffered for almost 7 years are in desperate need of having remaining ongoing liability, interest and penalties abated, or they will continue to be caught in the downward spiral in which they have been suffering for years due to the unintended consequences of the ISO AMT provisions.

Removing Relief Phase-out for American Families. A significant change was made to the relief in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006, in that an income phase-out provision was added that leaves many American families with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. Also, these income phase-outs unfairly targeting families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, New York, Connecticut and Virginia; those families are suffering as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs themselves have serious unintended consequences by forcing affected employees to quit work or lower productivity in order to recover their credits, thereby robbing companies and the economy of the services of high value employees, and robbing the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. Additionally families are frozen in their footsteps for 5 years, for instance if they were to receive a spike in salary or one-time bonus, they're also prevented from selling their homes and God forbid a rel-

ative passed away and left some of their estate to you are left with the Hobson's choice having to forgo some or all of your intended credit refund because your collective AGI exceeded the Cap thresholds or limits.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. Please do not hesitate to contact me at [Your Contact Information] if you have any questions.

Sincerely,

Sheila Weaver

Statement of Todd Keen

I was contacted via email by an organization I have been associated with for the last several years known as ReformAMT (www.reformamt.org). I joined this organization sometime after being hit with a substantial tax bill in the form of AMT tax in the tax year 2000. They have informed me of your panel and you're looking for input on the following items regarding current tax laws:

- Headaches, unnecessary complexity, and burdens that taxpayers—both individual's and businesses—face because of the existing system.
- Aspects of the tax system that are unfair.
- Specific examples of how the tax code distorts important business or personal decisions.
- Goals that the Panel should try to achieve as it evaluates the existing tax system and recommends options for reform.

In regards to the following item:

- Headaches, unnecessary complexity, and burdens that taxpayers—both individuals and businesses—face because of the existing system.

I have worked most of my adult life at start-up high-technical companies which commonly issued stock options as a form of compensation. One grant I received in 1997 was for ISO options, the rest were for Non-Qualified options. It is the ISO options that have created my headache. With the ISO options the general prevailing philosophy on the sales of these options was to exercise them and hold them for at least a year so that they would be taxed as long term capital gains. This philosophy appears to have been a recipe for over-taxation in the form of AMT tax when held in the context of the boom period of 1999–2001. While my employer held seminars on the implications that stock options had on potential tax burdens, we would be advised to consult with our own private tax consultant on our specific details. The problem is many tax consultants seemed to be inadequately informed on the matter of stock sales, ISO options and AMT tax implications. The result of attempting to do the correct thing for me to put myself in a tax situation where my ISO options would be taxable as long term gains resulted in being taxed on potential income that I have never made. Indeed 4 years later the stock my ISO's were granted in have still not approached the values that my AMT tax was based upon. I have since sold these shares to pay for my AMT obligation, but I am extremely disappointed at the opportunity lost. I am not an accountant and to this day still do not know what would have been the correct way to handle my ISO options.

I have continued to seek accounting help in this area several years after the fact, I have involved myself in the organization ReformAMT and hope that some day a clearer more representative taxation on my ISO sales will be implemented and I will have some restitution on my AMT taxes paid.

I am not a millionaire. I do not earn \$200,000.00 every year. I had several exceptional earnings years based upon stock options in the late 90's and early 2000. I am not now nor have I ever been close to bankruptcy. I have paid all my tax bills. I do believe that due to the current tax laws and lack of correct advice I have been overtaxed in the form of AMT tax on ISO options for profits I will never earn. I also feel that the government has impacted my ability to provide greater stability in the form of financial security to both my children and my spouse and I as we get older. This seems shameful to me that taxation laws could have this kind of impact on a family.

In regards to the following item:

- Aspects of the tax system that are unfair.

Any tax law that taxes people on potential future earnings and then does not return those taxes if the earnings are not realized is just plain unfair.

In regards to the following item:

- Specific examples of how the tax code distorts important business or personal decisions.

For me my important decisions had to do with funding my children's educations and providing for my wife and I in retirement. Due to the complexity and lack of correct advice in ISO/AMT matters my ability to properly plan for these items have been adversely impacted.

In regards to the following item:

- Goals that the Panel should try to achieve as it evaluates the existing tax system and recommends options for reform.

My primary goal for this panel is to recover AMT taxes assessed in the year 2000 for exercise of ISO stock options. My secondary goal would be obviously for others who have been impacted similarly to have their AMT recovered as well. My third goal would be a review of the AMT tax laws to see if they make sense and do whatever it is they were originally intended to do. If they do a new less complicated method of implementing these needs to be developed. Currently the AMT taxation rules are even too complicated for most accountants to properly explain to clients.

While I have not commented on specifics of my AMT impact other than the timeframes and personal feelings towards the issue, I would be more than happy to meet with the panel to discuss any specific detail of my AMT experience. I am not comfortable providing more specific details in this letter, as I am told it would be public record.

Excelsior, Minnesota
April 4, 2007

The Honorable Chairman Richard Neal
The Honorable Ranking Member Jim Ramstad
Select Revenue Measures Subcommittee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member Ramstad:

My name is Tom Schrepel and I am writing on behalf of my family, regarding Alternative Minimum Tax to incentive stock options (ISOs). We would first like to thank Congress and in particular the Members of the Ways and Means Committee and Select Revenue Measures Subcommittee, for the ISO AMT Relief legislation passed within the Tax Relief and Health Care Act of 2006. This relief brings a ray of hope and the beginning of the end to a financial nightmare that we have been living for nearly 7 years. We also respectfully ask for your continued support for important issues that remain unresolved for many ISO AMT victims, my family included. Specifically, we request assistance in addressing the income phase-outs that leave many families with limited or no relief. I will discuss this issue in more detail below, but first I would like to briefly share my family's story with regards to ISO AMT.

Our family paid over \$1.7 million AMT in Tax Year 2000, due to phantom gains on ISOs that were exercised but not sold. Specifically, the AMT was paid due to paper gains on 70,000 Ariba, Inc. ISOs that we exercised when the stock's value was over \$110/share. Due to a Blackout Period, I was unable to trade the stock until after the end of the tax year. The stock is now worth less than \$1/share, with an *economic benefit* of about \$70,000, as opposed to the \$7,700,000 paper gain we were taxed on. I ask that you focus on those numbers. **We paid a \$1,700,000 tax for an economic benefit of \$70,000.**

Tax law for AMT on ISOs as currently written is highly confusing and very unfair. The Instructions for Form 6251 (AMT—Individuals) when filing my 2000 taxes stated the following:

“The tax laws give special treatment to some types of income, allow special deductions for some types of expenses, and allow credits for certain taxpayers. These laws enable some taxpayers with substantial economic income to significantly reduce their regular tax. The AMT ensures that these taxpayers pay at least a minimum of tax on their *economic income*.”

My family has no special credits, deductions, or exemptions that significantly reduce our regular tax and we have been caught in a situation where our AMT tax burden on ISOs has far exceeded any *economic benefit* we have or ever will gain from ISOs exercised in tax year 2000. I am not a wealthy executive. I am a 47-year-old sales representative that received the ISOs because I joined a company before they were well known and opened a territory for them to make them well known. My wife, Velinda, is a stay-at-home mom for our 10-year-old daughter Emma and 6-year-old son Quinn. When we became aware of our AMT obligation in 2001, we liquidated all of our assets and paid the AMT, including a substantial penalty that incurred during the period that it took us to liquidate those assets. I continue to work and pay taxes. Interestingly enough, I seem to get hit with AMT every year.

We request that Congress remove relief phase-out that exist in the Tax Relief and Health Care Act of 2006. A significant change was made to the relief originally contained in H.R. 3385 when it was included in the Tax Relief and Health Care Act of 2006. Specifically, an income phase-out provision was added that leaves many American families, including mine, with no relief or only partial relief. This phase-out was not a part of the widely supported Johnson/Neal H.R. 3385. H.R. 3385 recognized that families should pay their fair share of tax on money actually received, regardless of income level. These income phase-outs also unfairly target families in high cost-of-living States and Districts such as Silicon Valley, Massachusetts, Minnesota, New York, Connecticut and Virginia. Families in these areas suffer as much from unfairly disproportionate taxation as people with lower incomes in other areas.

The phase-outs contained in the Tax Relief and Health Care Act of 2006 have serious unintended consequences by forcing affected employees to quit work or become less productive in order to recover their credits. This robs their employers and the economy of the services of high value employees, and robs the Treasury of tax revenue that would otherwise be collected from these people if they were fully productive. The phase-out Caps put us into another 5 years in purgatory of no financial flexibility after 7 years of loaning the Federal Government \$1.7 million, interest-free, due to the unintended consequences of ISO AMT.

I want to once again express my gratitude to Congress for all it has done and is doing to help families across the country suffering from ISO AMT. I also appreciate your attention to the topics in this communication. It is interesting to look back on correspondence with various entities on this topic. In our first correspondence, my son Quinn was 1 and my daughter Emma was 6. They are now 6 and 10. We do appreciate the progress you have helped us achieve and I trust that, with continued progress, we will be able to afford college for them when the time comes. Thanks again and please do not hesitate to contact me at any time if you have any questions.

Sincerely,

Tom Schrepel

Statement of William David Keschull

Mr. Chairman and Members of the House Ways and Means Subcommittee on Select Revenue Measures, I thank you for the opportunity to submit my statement regarding current problems with IRS instructions related to the AMT. My name is William David Keschull and my statement is being submitted as an individual taxpayer.

In this statement I will address IRS instructions that result in the "Double or Nothing Taxation" of tax refunds when the regular tax is paid in one year and the AMT is paid in the other and there was a tax benefit from a tax overpayment in the first year and a refund of the overpayment in the second year.

IRS's instructions that deviate from the Internal Revenue Code by excluding from alternative minimum taxable income (AMTI) the refunds of tax overpayments that provided a tax benefit in a prior year when the regular tax was paid has cost the United States Treasury several billion dollars since 1988.

On the other hand, some taxpayers who received a limited long-term capital gains rate-based tax benefit from a tax overpayment included on Schedule A (Form 1040) in the year the AMT is paid will have their refunds taxed at the regular tax rate after the income used for the tax overpayment was taxed at the AMT rate.

Double Taxing Income/Refunds

It is well understood that state and local income and property taxes are deductible in determining the regular tax and that an overpayment of the tax can produce a

tax benefit that must be accounted for in the refund year when the regular tax is paid. It is not understood by IRS that the refund must be accounted for by inclusion of the refund in AMTI when the AMT is paid in the refund year. It is also not understood by IRS that there can be a limited long-term capital gains rate-based tax benefit from a state income tax overpayment that is claimed as an itemized deduction on Schedule A (Form 1040) in a year that the AMT is paid. This benefit is the result of a tax overpayment causing a larger portion of capital gains to be taxed at the 5 percent rate and a smaller portion being taxed at the 15 percent rate on returns where the regular income without capital gains and qualified dividends is taxed at a rate below 25 percent. See page 2 of Form 6251. This benefit is revealed by the following instruction from page 25 in IRS Publication 525.

Subject to alternative minimum tax. If you were subject to the alternative minimum tax in the year of the deduction, you will have to recompute your tax for the earlier year to determine if the recovery must be included in your income. This will require a recomputation of your regular tax, as shown in the preceding example, and a recomputation of your alternative minimum tax. If inclusion of the recovery does not change your total tax, you do not include the recovery in your income. However, if your total tax increases by any amount, you received a tax benefit from the deduction and you must include the recovery in your income up to the amount of the deduction that reduced your tax in the earlier year.

In a year that the AMT is paid and there is a limited long-term capital gains rate-based tax benefit, the income used for the overpayment is included in Alternative Minimum Taxable Income and taxed at the AMT rate. If the regular tax is paid in the year the refund of the overpayment that produced the limited long-term capital gains rate-based tax benefit is received, the refund will be entered on lines 10 or 21 and will be taxed at the regular tax rate. Thus the income/refund related to a tax overpayment that produced the limited long-term capital gains rate-based tax benefit is double taxed because the income used for the tax overpayment is in a year that the AMT is paid is taxed at the AMT rate and the refund received in a year that the regular tax is paid is taxed at the regular tax rate. This violates section 111(a) of the Internal Revenue Code.

Section 111(a) of the Internal Revenue Code provides,

Deductions

Gross income does not include income attributable to the recovery during the taxable year of any amount deducted in any prior taxable year to the extent such amount did not reduce the amount of tax imposed by this chapter.

Based on section the language in 111(a) the refund of a tax overpayment that produced a limited long-term capital gains rate-based benefit should only be included in gross income for the purpose of determining the capital gains portion of a person's income tax in the refund year.

Taxing Neither the Income Nor the Refund

When a tax overpayment produces a tax benefit in a year that the regular tax is paid, the deduction for the overpayment offsets the income used for the overpayment. When the refund of a tax overpayment from a year the regular tax was paid is received in a year the AMT is paid the refund will be included in gross income as a result of the entry of the refund on either line 10 or 21 of Form 1040. The refund amounts entered on Lines 10 or 21 of Form 1040 are then excluded from Alternative Minimum Taxable Income as a result of their subtraction on line 7 of Form 6251. Thus neither the income used for the tax overpayment that produced the tax benefit nor the refund of the overpayment will be taxed directly. It should come as no surprise that this instruction is contrary to the section 56(b)(1)(D) of the Internal Revenue Code. The result of this bollixed instruction has been the loss of several billion dollars to the United States Treasury since 1988. I estimate the loss to the United States Treasury to be about \$500,000,000 in 2006 alone as a result of the bollixed IRS instructions that excludes refunds from years when the regular tax was paid from AMTI.

Section 56(b)(1)(D) provides,

Treatment of certain recoveries

No recovery of any tax to which subparagraph (A)(ii) applied shall be included in gross income for purposes of determining alternative minimum taxable income.

Section 56(b)(1)(A)(ii) provides,

(b) Adjustments applicable to individuals

In determining the amount of the alternative minimum taxable income of any taxpayer (other than a corporation), the following treatment shall apply (in lieu of the treatment applicable for purposes of computing the regular tax):

(1) Limitation on deductions

(A) In general

No deduction shall be allowed

- (ii) for any taxes described in paragraph (1), (2), or (3) of section 164(a). Clause (ii) shall not apply to any amount allowable in computing adjusted gross income. Section 164(a) (1–3) provides,

(a) General rule

Except as otherwise provided in this section, the following taxes shall be allowed as a deduction for the taxable year within which paid or accrued:

- (1) State and local, and foreign, real property taxes.
- (2) State and local personal property taxes.
- (3) State and local, and foreign, income, war profits, and excess profits taxes.

In 1999, two letters from me to IRS and two letters from IRS to me were released by IRS as Tax Correspondence and published in *Tax Analyst*.¹ The letter from a respondent in the IRS Office of Chief Counsel presented a detailed response to my concerns about the tax treatment of itemized deduction recoveries. Unfortunately, the respondent seemed to subscribe to the philosophy of John Sears, an advisor to Ronald Regan, “reality is an illusion that can be overcome.”

Here is how the respondent tried to justify the IRS instruction (currently line 7 on Form 6251) that has produced a multi-billion dollar fraud on the United States Treasury.

As stated in prior correspondence we disagree with your assertion that recoveries of taxes described in paragraphs (1), (2), or (3) of section 164(a) should only be excluded from gross income in computing AMTI to the extent deduction of the taxes did not reduce the taxpayer's income tax liability. Under your interpretation section 56(b)(1)(D) would be unnecessary; it would only apply to exclude items from gross income when such items are already excluded from gross income under section 111.

Section 56(b)(1)(D) provides that no recovery of any tax to which section 56(b)(1)(A)(ii) applied shall be included in gross income for purposes of computing AMTI. By its terms section 56(b)(1)(A)(ii) denies any deduction in computing AMTI for taxes described in section 164(a)(1)–(3). It does not limit its application to taxable years in which the taxpayer is liable for AMT. Because these taxes are never deductible in computing AMTI, recoveries of such taxes are always excluded from gross income, under section 56(b)(1)(D), for purposes of computing AMTI.

When the respondent's letter was published in 1999 his assertion that a tax deduction taken in a year that the Alternative Minimum Tax (AMT) was paid could not have reduced a taxpayer's income tax liability and therefore the refund should not be included in gross income on Form 1040 was no longer true. In fact, beginning in 1997, a tax deduction claimed on Schedule A (Form 1040) could have reduced a taxpayer's tax liability when the AMT was paid as a result of what I have described above as a limited long-term capital gains rate-based tax benefit which results from the two tier capital gains rate structure. See page 2 of Form 6251.

What the IRS respondent is saying is that section 56(b)(1)(D) provides that refunds of taxes that were allowed as itemized deductions under section 164(a) and as such produced a tax benefit when the regular tax was paid are excluded from AMTI in addition to the taxes that were not allowed as a deduction in determining AMTI under section 56(b)(1)(A)(ii) and therefore produced no tax benefit when the AMT was paid.

When the respondent stated, *It does not limit its application to taxable years in which the taxpayer is liable for AMT*, he was simply wrong. Section 56(b)(1)(D) means exactly what it says: *no recovery of any tax to which subparagraph (A)(ii) applied shall be included in gross income for purposes of determining alternative minimum taxable income*. For subparagraph (A)(ii) to have applied to the tax being refunded, payment of the AMT would have been required. Section 56(b)(1)(D) is necessary to appropriately preclude the inclusion in AMTI of a refund of a tax overpayment that produced a limited long-term capital gains rate-based tax benefit in a year the AMT was paid. When the tax benefit is the result of paying tax on less taxable income rather than the result of paying tax at a lower rate on a portion of capital gains, the tax refund must be included in AMTI based on a rational interpretation of section 111(a) of the Internal Revenue Code.

¹ Tax Analyst, Tax Notes Today, March 18, 1999 Thursday, Department: Official Announcements, Notices, and News Releases; IRS Tax Correspondence, Cite: 1999 TNT 52–53. HEADLINE: 1999 TNT 52–53 Taxpayerirate About IRS's Position on AMT and Tax Benefit Rule (Section 111—Tax Benefit Recovery Items;) (Release Date: DECEMBER 08, 1998) (Doc 1999–10275 (28 original pages)).

If it were the intent of Congress not to include the refunds of all taxes claimed as itemized deductions on Schedule A (1040), section 56(b)(1)(D) would state the following:

Treatment of certain recoveries

No recovery of any tax claimed as a itemized deduction under subparagraphs (1), (2), or (3) of section 164(a) shall not be included in gross income for purposes of determining alternative minimum taxable income.

But that is not what 56(b)(1)(D) states.

Here is a question for the Internal Revenue Service and the Treasury Department to answer:

If a tax overpayment is allowed as a deduction and produces a tax benefit in a year that the regular tax is paid and the refund of that overpayment is to be excluded from alternative minimum taxable income in a year the AMT is paid as indicated by the IRS instructions and defended by the respondent in the IRS Office of Chief Counsel, just when is the income/refund taxed directly?

I submitted a more detailed statement on "Double or Nothing Taxation" of Tax Refunds when the AMT is paid in one year and the regular tax is paid in the other to the Oversight Subcommittee of the House Ways and Means Committee for inclusion in the record for their hearing of March 20, 2007 regarding the Tax Gap. That statement also addressed "Double Taxation" of itemized deduction recoveries that result from IRS instruction that deviate from the provisions of section 111(a) by inclusion of the recoveries entered on lines 10 and 21 in the calculation of taxable Social Security benefits and 27 other provisions in the Internal Revenue Code that are impacted by AGI or one of the numerous versions of modified AGI (MAGI).

