



November 14, 2007

U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington DC 20510

Subject: Full Relief for AMT Tax Inequity Suffered by America's Workforce

Dear Senator:

The American Benefits Council wants to thank you for your support for the ISO AMT relief legislation in 2006, that made an important step toward providing partial relief for tens of thousands of taxpayers in America's workforce. Many of these workers and their families have been suffering for almost a decade *under tax rates exceeding 300 percent of their taxable income*. The American Benefits Council urges your support for the legislation introduced this year that will fairly and fully restore justice and proportional taxation to all these American workers.

The AMT Credit Fairness and Relief Act (H.R. 3861) (AMT Credit Bill) was introduced by Rep. Chris Van Hollen and Rep. Sam Johnson, with original cosponsors Rep. Richard Neal and Rep. Jim Ramstad. Language from this legislation was added as an amendment to the Temporary Tax Relief Act of 2007 (Tax Relief Bill), which was passed by the House Committee on Ways & Means on November 1, and the full House on November 9.

The AMT Credit Bill builds on the strong foundation of relief from last year, and we believe fully resolves the crisis caused by an unjust and unintended application of the AMT tax as applied to incentive stock options (ISOs). The problem is that many employees who exercised ISOs prior to a significant drop in the price of the stock faced significant AMT tax liabilities based on the value of the stock at the time of exercise even though the purchased stock was often worth considerably less than the resulting tax liability by the time they paid their taxes. Although a credit is generated by the overpayment of taxes, significant limitations on the use of this credit will result in many employees being unable to use more than a small amount of the credit in any year.

The economic meltdown from 1999-2003 left many employees who exercised ISOs, with tax bills on “phantom income” greatly exceeding not only the intended rate (i.e. capital gains rate on an actual value received from the stock) but even greatly exceeding their entire income. What was intended to be a prepayment of tax on future income, has become a nightmare for these employees because that income evaporated.

Employees across the country are facing tremendous stress and in some cases financial disaster, totally undermining the intent of Congress to provide access to company stock as an incentive for them to work hard for their company’s success. Hardworking Americans are losing their homes, children’s education funds, and retirement funds, and having their wages garnished by the IRS for years.

H.R.3861 ensures that all employees pay a fair and proportional tax, by removing the income phase-outs on credit recovery. In certain cases, employees have overpaid their ISO AMT taxes so significantly that putting “caps” on the relief creates a situation in which employees are better off not working since they will otherwise never recover their tax overpayments. Aside from being unfair, a policy that discourages continued productivity is bad for employees, companies, and the United States economy.

H.R.3861 also abates on-going liability, interest and penalties the IRS has imposed on unpaid ISO AMT taxes. Many employees could not find a way to pay these severely disproportionate ISO AMT taxes, and they certainly cannot pay the accruing penalties and interest. The current law is having tragic and unforeseen consequences.

The American Benefits Council thanks you for your attention to this critical matter of fairness for all Americans, and requests your support for including the AMT Credit Fairness and Relief Act in legislation that reaches the President’s desk in 2007.

Please contact me at 202-289-6700 or jjacobson@abcstaff.org if you have any questions or if we can provide additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Jan Jacobson", written in a cursive style.

Jan Jacobson
Retirement Policy Legal Counsel
American Benefits Council