



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 26, 2008

The Honorable Charles Grassley
United States Senate
Washington, DC 20510

Dear Senator Grassley:

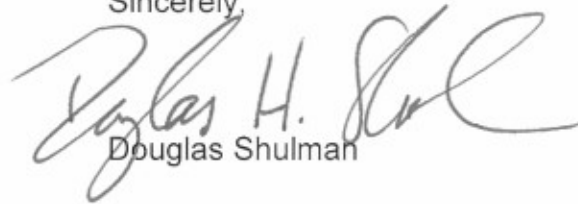
Thank you for your letter dated July 3, 2008, signed by you and your colleagues, concerning alternative minimum tax arising from the exercise of incentive stock options. Employees exercising ISOs realize income subject to AMT, but not the regular income tax. Many taxpayers who exercised ISOs incurred significant AMT liability because of the high value of the shares when the ISOs were exercised. Many of these taxpayers paid the resulting liability. Others did not and that tax liability continues to accrue interest and penalties.

You note that legislation with broad bipartisan consensus is pending in the Congress to provide additional relief to taxpayers who incurred AMT on the exercise of ISOs. H.R. 3861 and its companion bill, S. 2389, would accelerate the minimum tax credit associated with AMT items and remove the current phase out when a taxpayer's adjusted gross income exceeds the section 53(e) threshold amount. The legislation would also abate unpaid AMT liabilities, including interest and penalties, attributable to the exercise of ISOs and would not allow a refundable credit for any underpayment that is abated. Because of Congress' determination to act on the pending legislation, you asked me to suspend efforts to collect ISO AMT liabilities and to consider the pending relief legislation in allocating limited collection resources this year.

In response to your request, we are taking steps to identify all Collection cases that involve AMT ISO liabilities. To provide the Congress with an opportunity to enact the pending legislation, the IRS will not undertake any collection enforcement action through the end of this fiscal year on these cases. To the extent that taxpayers approach us in an attempt to reach payment arrangements during this period, we will continue to advise them of available options. We will also continue to make case-specific determinations about the taxpayer's ability to pay in reaching resolution. If the pending legislation is not enacted this fiscal year, the IRS will then continue to administer programs in accordance with current law, and in fairness to the thousands of taxpayers who have already made sacrifices to pay taxes due under this provision of the tax code.

I am sending a similar letter to your colleagues. I hope this information is responsive to your letter, and I would be happy to meet with you to further explore this issue. If you have questions or would like to schedule a meeting, please contact me or have your staff contact Floyd Williams, National Director, Office of Legislative Affairs at (202) 622-3720.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas H. Shulman". The signature is fluid and cursive, with the first name "Douglas" being the most prominent.

Douglas Shulman