

The Gazette

AN INDEPENDENT NEWSPAPER IN IOWA'S TECHNOLOGY CORRIDOR

Wednesday, October 24, 2007

Action urged on alternative tax

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The alternative minimum tax, created to keep high-income taxpayers from using deductions and shelters to avoid taxes altogether, continues to command congressional attention because of the problems it is causing for middle income taxpayers.

U.S. Sen. Chuck Grassley, R-Iowa, warned this week that Congressional delays in extending alternative minimum tax relief so far this year will bring confusion and hardship for taxpayers, and administrative headaches for the Internal Revenue Service.

Separately, a group seeking relief from the alternative minimum tax for taxpayers who lost money on incentive stock options urged the adoption of legislation aimed at solving their tax problems.

The alternative minimum tax snares more Americans every year because it is not indexed to inflation. The resulting problems for middle income taxpayers led Congress last year to approve a relief measure as part of a larger tax package to address other tax issues, but the lateness of its passage caused confusion and inconvenience for some taxpayers.

“This time many more taxpayers are involved,” Grassley said in a prepared statement. “Last year’s problems will look puny in comparison.” Grassley, ranking Republican on the Senate Finance Committee, blamed the delays on majority Democrats and said they need to “get off the dime and enact AMT relief sooner rather than later.” Grassley cosigned a letter to Treasury Secretary Henry Paulson Jr. warning that delays in enacting the patch could result in at least \$50 billion in taxes being collected under the alternative minimum tax that is not owed. Paulson on Tuesday added his voice to the call for Congressional action.

The Coalition for Tax Fairness praised the efforts of U.S. Rep. Chris Van Hollen, D Maryland, in introducing bipartisan legislation to correct inequities in the alternative minimum tax system affecting taxpayers who lost money on incentive stock options when the technology bubble burst. Some of the taxpayers affected worked at McLeodUSA and other telecommunications companies in the Corridor.

For some taxpayers, being required to pay taxes on stock that had lost most of its value after they received it through incentive stock options resulted in tax bills exceeding 300 percent of their annual salaries.

A previous legislative effort to correct the problem allowed taxpayers to get a refund for amounts paid on incentive stock option alternative minimum tax, but the payments spanned a series of years, did not wipe out the entire debt, and did not discharge all their responsibilities to pay interest and penalties on tax bills for alternative minimum tax.

Van Hollen introduced the AMT Credit Fairness and Relief Act with U.S. Rep. Sam Johnson, R-Texas, U.S. Rep. Richard Neal, D-Mass., and U.S. Rep. Jim Ramstad, R-Minn. The bill will require taxpayers to pay tax on money actually made, but relieve those who paid disproportionate taxes on “phantom income” they never received, plus the related interest and penalties, Van Hollen said.

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