



AMT

Rep. Johnson of Texas Seeks Tax Break For 'Phantom' Incentive Stock Option Gains

August 10, 2005

A Texas congressman has introduced a bill meant to ease the burden on recipients of incentive stock options that were later hit with high alternative minimum tax bills.

Under the AMT Credit Fairness Act (H.R. 3385), introduced July 21, taxpayers with AMT credits more than four years old would be able to rebate them at the greater of 20 percent annually or \$5,000 a year. Proponents of the bill said the credits for "stranded" AMT overpayments likely would not otherwise ever reach the taxpayer.

Johnson, in a news release, compared the credits to "interest-free loans" to the government. "No one should have to float the government an interest-free loan forever," he said.

The AMT was created by Congress to ensure the wealthy, through the extensive use of tax breaks, did not avoid paying income taxes completely. In recent years, however, the AMT increasingly has begun to affect upper middle-income families and is expected to cast its net wider unless Congress takes action.

The issue with which Johnson's bill is meant to deal is incentive stock option (ISO) activity. Taking advantage of ISOs put many workers into the AMT system, where their stocks' prices, even if not sold for profit, could generate "phantom gains" that would add to the AMT tax bill.

"This legislation serves as a real ray of hope for my family and thousands of other families across the nation who are facing financial ruin from the unintended consequences of the Alternative Minimum Tax as applied to incentive stock options," Nina Doherty, co-founder of the Washington-based Coalition for Tax Fairness said in a July 21 news release.

The bill was referred to the House Ways and Means Committee, of which Johnson is a member, and has garnered 19 co-sponsors in the House, including other Ways and Means members.