

# House Committee on Ways and Means

Milan, Michigan 48160

*August 31, 2005*

Honorable John D. Dingell  
U.S. House of Representatives  
15<sup>th</sup> District, Michigan  
19855 W. Outer Drive  
Suite 103-E  
Dearborn, MI 48124

Dear Representative Dingell:

I had the good fortune of meeting with you in person during an open meeting in Dearborn, Michigan on Tuesday, August 30, 2005. The purpose of my letter is to better inform you of the specifics regarding a rather large AMT tax debt that I incurred on “phantom” gains due to the application of the Alternative Minimum Tax to incentive stock options (ISOs). This letter also comes as a result of your personal recommendation during our brief meeting.

The issue with the AMT and ISOs is very complicated. The table below has been added to assist in detailing the financial woes that myself, and many others, have learned about “the hard way”.

In 2000, I took out a Home Equity loan to cover costs associated with the exercise of 13,166 stocks options with my current employer. At the time of the sale, the stock was trading at \$7.50. My exercise price was \$3.10 per share, and I chose to “hold” the stocks for a minimum of one year in order to take advantage of the lower capital gains tax rate of 20%. What I did not know at the time of exercise was that my unrealized, or “phantom” gain of \$57,930.40 was subject to a form of taxation (the AMT) even though the stocks were not actually sold. As such, I incurred a very large, unexpected tax liability when my 2000 tax returns were completed. At this point, I also “earned” an AMT credit of \$12,403 which could be applied to future taxes, or at least that was what I thought.

Unfortunately, the stock price continued to fall and in 2004 I actually sold the securities and realized a gain of \$2,399.00. This was a far cry from the “phantom” gain of \$57,930.40 which formed the basis of my AMT in 2000. While preparing for my 2004 tax return, I assumed that the complete \$12,403 tax credit would be refunded to me based upon the fact that my realized gain was only a mere 5% of the “phantom” gain. However, after much consultation with my tax advisor, I soon learned that this event (the actual sale of the securities) was not an adequate event to trigger the complete release of the tax credit per our current tax code. The resultant AMT credit carried forward was reduced to \$11,397.00. Further, my research has shown me that the AMT remaining credit is not likely to be refunded over the course of my life using conventional means.

<b>Year</b>		<b>2000</b>
Number of Stock Options		
Exercised		13,166
Exercise Price	\$	3.10
<b>Cost Basis</b>	<b>\$</b>	<b>40,814.60</b>
Stock Value on Day of		
Exercise	\$	7.50
"Phantom" Gross		
Proceeds	\$	98,745.00
<b>"Phantom" Gain Subject</b>		
<b>to AMT</b>	<b>\$</b>	<b>57,930.40</b>
<b>Resultant AMT Due</b>	<b>\$</b>	<b>12,403.00</b>
<hr/>		
<b>Year</b>		<b>2004</b>
Sold Stocks - Actual Gain	\$	2,399.00
<b>AMT Credit Carried</b>		
<b>Forward</b>	<b>\$</b>	<b>11,397.00</b>

I would like to ask for your active support and co-sponsorship of H.R. 3385. This important legislation was recently introduced by Reps. Johnson (TX), Neal, McCrery, Jefferson, Ramstad, Lofgren, Shaw, Honda and Johnson (CT), to provide relief for taxpayers subjected to unfair and unjust tax treatment due to the AMT treatment ISOs. In addition to unfairly affecting me, this serious problem has impacted many employees of small and large companies across America, often resulting in taxes up to and exceeding 300 percent of these employees' annual salaries. Workers are being forced to pay tens of thousands, hundreds of thousands, and even millions of dollars in tax overpayments on income they will never receive.

Please join the groundswell of support for remedying this serious injustice through this ISO AMT legislation. This bi-partisan effort is building support in Congress, the Press, Corporate America, the Taxpayer Advocate's office. Grassroots organizations like the ReformAMT [www.reformamt.org](http://www.reformamt.org) and the Coalition for Tax Fairness [www.fair-iso.org](http://www.fair-iso.org) are actively supporting this important legislation, and may be contacting your office to secure your support.

Again, it was a pleasure to meet with you and have the opportunity to touch on this issue one on one. I am hopeful that you will see the injustice with the portion of the tax code affecting ISOs and take the appropriate countermeasures. Should you have any additional questions or comments regarding my testimony, please feel free to contact me at 734-681-1080

Best Regards,

John Terech