Congress must correct an unfair tax anomaly
An effort to close a loophole on incentive stock options wreaks ruin on some hardworking families

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Congress has been trying, but may fail, to find a permanent answer this year to its dilemma over the Alternative Minimum Tax. The AMT was once seen as a means to rein in super-rich tax cheaters. Now it is a pox on middle-class taxpayers.

After years of inflation since the AMT's inception in 1969, the provision now affects 3.5 million taxpayers. Left unattended, it would affect an estimated 18.9 million mostly middle class taxpayers this year.

The main problem for Congress is that fixing the AMT, even for a year, is costly. The one-year fix that is now part of House-Senate budget negotiations would "cost" the federal treasury more than $30 billion. A permanent fix would be worth $1 trillion over the next decade.

Nevertheless, the AMT is unfair generally and its draconian treatment of a particular kind of stock option is downright ruinous to some Americans. The AMT has no place in a fair, updated tax code and ought to be repealed.

Regardless of whether Congress solves the larger AMT issue, it absolutely must repair a glitch in the law that has driven some taxpayers to the brink of ruin.

As it evolved over the years, the AMT became a tool to curb an abuse in which some employees could dodge taxes on incentive stock options. The law addressed this by assessing taxes on these kinds of options when they are exercised, rather than when the employee actually sells the stock. In theory, and in normal times, the rules would work to "true up" those paid-in-advance taxes over time.

But the dot-com crash of 1999-2001 changed that. Employees who had exercised their stock options -- often under duress as their jobs evaporated -- owed taxes based on stocks' inflated book values. When the values dropped, loyal employees owed taxes on money they did not make and will never make.

Consider, for example, the case of Liles Garcia, an Aloha man who was squeezed out of a downsizing company. He was a midlevel employee making $48,000 a year and had to exercise his stock options or lose them when he was laid off. He ended up with an AMT bill that, with penalties and interest, amounted to nearly $400,000.

Estimates based on tax-court records suggest that hundreds of thousands of families across the country face similar dilemmas. House Bill 3385, which would correct the problem, may have enough momentum to get through the current session of Congress. But the victims of this glitch should not have to wait.

Whatever else they do on the AMT, the House and Senate could and should correct the stock options problem now -- and end a nightmare for millions of hardworking Americans.

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