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Reforms Repeatedly Stalled

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Efforts to end the Internal Revenue Service's (IRS) current treatment of incentive stock options (ISOs) under provisions of the Alternative Minimum Tax (AMT) have moved through Congress several times, only to be stalled by outside events.

In 2001, Congress appeared ready to stop the IRS, but then the September 11 terrorist attacks occurred. That took attention away from the issue, and the matter died. Progress toward halting the IRS was again being made in 2005 when Hurricanes Katrina and Rita hit, again killing the momentum.

New Push

Supporters of AMT reform are hoping for renewed momentum this year. They have pegged their hopes to HR 3385, the AMT Credit Fairness Act, introduced last year by Rep. Sam Johnson (R-TX).

Johnson said his proposal would allow those with AMT credits more than four years old to receive tax rebates that amount to either 20 percent of the total credit or \$5,000 per year, whichever is greater. Many of those hit by the AMT on ISOs have hundreds of thousands of dollars of prepaid AMT credits going back four or more years. Under current law, they may collect only \$3,000 a year in rebates, meaning they have no hope of getting back their prepaid tax.

'People Are Hurting'

"People who were stabbed by ISOs are really hurting," Johnson said. "It's ridiculous. I don't think any citizen should be treated this way. If there is a cost to doing this, we ought to take it out of the spending side."

Johnson said he recently spoke with a Dallas resident who received incentive stock options and was told by his tax adviser to hold them for a year because of other provisions of the tax code that rewarded holding stocks more than a year. In addition, he might have been vulnerable to prosecution for insider trading if he had sold the stocks. The stocks tanked, and the man ended up owing \$350,000 in taxes even though he got nothing from them.

"He had to foreclose his home and is still working toward paying \$240,000 toward that tax liability, and he is living with his kids," Johnson said. "That tax is really a loan to the government. The AMT was always considered as a loan that needed to be paid back, and we have never returned that money to anybody."

Never Meant for This

Johnson notes the original AMT was created in 1969 because 155 wealthy individuals had used tax credits, deductions, and other adjustments to avoid paying federal income taxes. The AMT was never intended to affect millions of taxpayers, as it does today, or to punish workers whose incentive stock options declined in value before the persons could benefit from them.

'Tough Year' Ahead

Johnson acknowledged passing reforms will be difficult.

"This will be a tough year," Johnson said. "The U.S. Senate is dysfunctional. They're claiming they're not going to pass a budget this year, saying they won't have reconciliations. We may not have many bills out of the Senate at all."

-- *Steve Stanek*