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Grassley, Colleagues Secure IRS Commitment to Suspend Collection of ISO AMT Liabilities

WASHINGTON – Sen. Chuck Grassley, with colleagues, has secured a commitment from the Internal Revenue Service (IRS) to suspend the collection of Alternative Minimum Tax (AMT) liabilities, including interest and penalties, that arose from employees’ exercising of incentive stock options. The suspension gives Congress time to enact legislation that would ease these burdens on affected taxpayers.

“Taxpayers in this situation faced a lot of income tax on very little income,” Grassley said. “There’s bipartisan consensus to fix the problem. By holding off on collections, the IRS is giving Congress time to act without making things worse for the affected families.”

Grassley is ranking member and former chairman of the Committee on Finance, with exclusive Senate jurisdiction over tax policy. On July 3, Grassley and Senate and House colleagues wrote to IRS Commissioner Doug Shulman, asking for a suspension of liability and penalty collections in incentive stock option AMT cases. This week, the IRS commissioner wrote Grassley to notify him that the agency is offering the suspension. The text of the Grassley et al. letter follows here. The text of the Shulman letter to Grassley is attached.

July 3, 2008

The Honorable Douglas Shulman
Commissioner
Internal Revenue Service
1111 Constitution Ave., NW
Washington, DC 20224

Dear Commissioner Shulman:

We are writing to request your assistance in protecting taxpayers from the unintended consequences of a well-intentioned but misguided tax policy. Many families around the country have been caught by what is referred to as the Incentive Stock Option (ISO) Alternative Minimum Tax (AMT). Because of the way stock options are treated by the AMT, many families are struggling under the weight of massive tax liabilities based on income they did not collect and never will collect. Many of these families have lived in the shadow of their tax liabilities for many years, and are waiting for Congress to take action.

We are currently working to help these ISO AMT families through the enactment of H.R. 3861, the *AMT Credit Fairness and Relief Act of 2007* and its companion bill S. 2389. These bills work off of earlier legislation contained in the *Tax Relief and Health Care Act of 2006* to increase the AMT refundable credit amount for families and individuals with long-term unused credits for prior year minimum tax liability. This reflects the true tragedy for the ISO AMT families. Under current law they are entitled to use refundable credits into the future to compensate for what they owe now. However, they are being pressed to pay their current liabilities immediately, without regard for the refundable credits. These families are facing the garnishments of wages, foreclosures of homes, seizures of retirement accounts, and all the other tools available to the IRS to settle uncollected tax debts.

There is now a very broad bipartisan consensus to abate all interest and penalties attributable to ISO AMT liabilities and permit taxpayers to apply the full amount of their future refundable credits towards the entirety of their current ISO AMT liabilities. Moreover, there is now a strong bicameral commitment to enact legislation that accomplishes these goals in the near term this year. In light of that commitment, we are writing to ask that you use the discretion provided the IRS by its effective tax administration authority to suspend efforts to collect ISO AMT liabilities while Congress acts to fix this situation and to take Congress' determination to act in this matter into consideration when allocating limited collection resources this year.

We are committed to protecting these families from the burdens of a tax policy that was never meant to have taxed them so much on so little actual income. We would be grateful if we could count on your assistance with this issue.

Sincerely,

Charles Grassley
United States Senator

John F. Kerry
United States Senator

Maria Cantwell
United States Senator

Barbara Boxer
United States Senator

Chris Van Hollen
Member of Congress

Sam Johnson
Member of Congress

Richard E. Neal

Jim Ramstad

Member of Congress

David Loebsack
Member of Congress

Zoe Lofgren
Member of Congress

Jon C. Porter
Member of Congress

Patrick J. Kennedy
Member of Congress

Michael M. Honda
Member of Congress

Wally Herger
Member of Congress

Doris O. Matsui
Member of Congress

Pete Sessions
Member of Congress

David E. Price
Member of Congress

Tom Davis
Member of Congress

Member of Congress

Jim McDermott
Member of Congress

Tim Walberg
Member of Congress

Melissa L. Bean
Member of Congress

Anna G. Eshoo
Member of Congress

Shelley Berkley
Member of Congress

Leonard L. Boswell
Member of Congress

Tom Latham
Member of Congress

Elijah E. Cummings
Member of Congress

John T. Doolittle
Member of Congress