



TAXATION SECTION

THE STATE BAR OF CALIFORNIA

October 24, 2006

The Honorable Chairman Charles Grassley
The Honorable Ranking Member Max Baucus
Senate Finance Committee
Dirksen Senate Office Building
Washington, D.C. 20515

The Honorable Dianne Feinstein
The Honorable Barbara Boxer
United States Senate
Hart Senate Office Building
Washington, D.C. 20510

Dear Senators Boxer, Baucus, Grassley and Feinstein:

On behalf of the Executive Committee Members of the State Bar of California Taxation Section, we write in support of the ISO AMT Relief Bill passed by the House in July 2006. We also write to request that the Senate provide fair relief for *all* American families by: 1) removing the income phase-outs that were added to the House bill; and 2) by instructing the IRS to stop collection efforts on unpaid ISO AMT liabilities, and not to impose interest and penalties on amounts taxpayers were not able to pay.

1. Income Phase Outs Are Unfair to California Taxpayers

All families that have generated ISO AMT credits – not just families with income beneath a particular threshold – have egregiously overpaid their taxes and need to have those overpayments refunded to begin to recover from this devastating excess-taxation. We are particularly concerned that the income phase-outs will hurt California taxpayers more than any others due to the higher cost of living and higher wages in our state. The income phase-outs will disproportionately hurt Californians, despite the fact that California taxpayers (especially those in Silicon Valley) were among the hardest hit by the unfair ISO AMT tax glitch, which required thousands of California workers to pay huge AMT liabilities as a credit towards future stock profits that will never materialize.

People making the amount of money that subjects them to the phase-out cannot better afford to pay tens of thousands – and even hundreds of thousands of dollars -- in tax overpayments than those whose annual incomes are less. Due to the exclusion, many California families affected by the unfair ISO AMT regime will never get their money returned, which is not fair from any perspective. Citizens should pay their fair share of tax on money *actually received*, regardless of income level. We ask that you remove the income phase-outs in HR 5970 Section 232, so that all victims of the ISO AMT tax glitch will be able to recover the unfair credits they were forced to pay (or are still trying to pay).

2. Need for Clarification on Stopping Collection and Abating Interest and Penalties

Because the IRS has taken the position that it is without the ability to suspend collection actions or to resolve these tax liabilities under the Offer in Compromise program, the IRS will continue to seize people's homes and retirement accounts and garnish wages even after taxpayers are able to start recovering their overpayments under the ISO AMT Relief Legislation. That would be a huge tragedy.

To prevent this result, we believe it is necessary for Congress to instruct the IRS to stop collection efforts on amounts people simply have not been able to pay, and not to impose interest and penalties on amounts taxpayers were not able to pay. While stopping collection and abating interest and penalties would be the logical and fair position for the IRS to take once they see that Congress has mandated returning the overpayments, official instructions should be stated for the IRS to ensure that the will of Congress is carried out.

We thank you for your support in helping to bring this crucial legislation to the President's desk for signature in 2006.

If you have any questions about how the current law affects Californians, or how the proposed bill would provide relief, please feel free to contact Abraham Brown, Vice Chair of our Tax Section Executive Committee, at (415) 318-8700, or by email at abrown@browntaxlaw.net.

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Best Regards,

A handwritten signature in black ink, appearing to read 'Edward Jajeh', written in a cursive style.

Edward Jajeh
Chair, Taxation Section Executive Committee