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My family has been decimated by the Alternative Minimum Tax (AMT) and how it applies to Incentive Stock Options (ISOs). We have been victims of this flawed tax law since 2001. We have lost ALL our assets, including our home. We have had to send our children away to live with relatives. We have had to take our son out of college. And, in our fifties, my husband and I now are facing the cruel realities of having to start over financially. We are honest, hard-working Americans who have been treated like common criminals by the IRS, all because we voluntarily complied with a self-reported tax under the AMT that imposes a tax on no income or gain.

I have heard that Congress understands the problem, agrees that it is a poorly written law, and is considering reform. Unfortunately, any fix will not be in time to make our lives whole again. What is done is already done. I can only hope that a fix from Congress will help us put our lives back together and give my husband and me a chance of supporting ourselves when we are unable to earn income.

My husband, Dan, worked in sales for GeoTel Communications, which was later acquired by Cisco Systems. He received incentive stock options as commission for a job well done. When he decided to leave Cisco in the year 2000, he was required to exercise his options, as stipulated by his Stock Option Agreement.

When filing our tax returns in April of 2001, we were not aware that we triggered a major tax event (the AMT on our ISOs). So, we paid our \$125,000 in regular federal taxes. Later, through friends, we discovered that we owed AMT on our ISOs that amounted to about \$438,000 in additional taxes. We also learned that there was NO notification to the IRS of the taxable event. Neither Cisco nor our financial institution was required to file any paper work. AMT on ISOs is a self-reported tax. So, there was no audit trail for the IRS to catch the omission.

Dan and I are both Christians with two children, who are now 20 and 16. We have tried to teach them honesty even in the face of dire consequences. So, with the knowledge that the IRS would probably never notice our omission, we decided to file an amended tax return for 2000, reporting the additional \$438,000 in taxes based solely on the AMT associated with the exercising of ISOs. This additional liability was greater than our net worth. The exercising of ISOs amounts to a PURCHASE of stock, not a sale, since there is NO realized gain. But, by then, the value of the stock had plummeted to a fraction of the value from which the original AMT was computed (Phantom Income). There was no correlation to any gain as we had merely purchased our stock; yet we had to pre-pay tax as if we had sold and made a gain.

We worked with a tax attorney through the IRS's Offer and Compromise (OIC) process to no avail, costing thousands of dollars in legal fees while incurring another \$180,000 in interest and penalties. The IRS looked at our assets and determined that we should pay \$372,000 over two years, or approximately \$14,500 per month. They placed liens on both of our properties. We

sold the first property and used the proceeds, \$115,000, to pay part of the liability. We also depleted our retirement savings to meet the IRS's monthly payment requirements.

The continuous pressure from the IRS was unbearable. Finally, in February of 2006, we had to sell our last asset, our home, to appease the IRS and settle the remainder of our debt. We were weary and homeless but glad to be "free". The liens have been lifted, and we have documentation that our debt is paid. The only stipulation from the IRS was that our taxes must be paid on time for the next five years, otherwise the liability would revert to the initial amount, which had grown to \$610,000.

Early this year, as we calculated our 2005 income taxes, we discovered that we incurred yet another liability we could not pay. This liability came from liquidating our retirement early. We are now facing the penalties of cashing in our IRAs and are estimating \$30,000 in additional income tax and penalties, placing our ISO-AMT agreement in jeopardy. Ironically, selling retirement funds for this particular reason is not considered a hardship. So, we are, once again, struggling to find this money. We have sold everything and have no real assets left.

The last five years have taken a heavy toll on all my entire family; and, it isn't over yet. Our son was forced to leave the university he attended. Our daughter had severe emotional difficulties that were exacerbated by this experience; she is now living in California with family and is recovering. Dan and I will celebrate our 30th anniversary in May. Now in our fifties, we are starting over and every pleasure and pain is colored by the huge losses we have suffered.

AMT and its treatment of ISOs is failing the people and the economy of this country. Our family and friends try to comfort us by using the phrases "it's only money" or "at least you have your health". My husband and I have worked nearly all of our adult life to make a home for ourselves and our children, to send them to college, and to retire in relative security. Now, we have lost all of those dreams.

We humbly ask that the Alternative Minimum Tax's treatment of Incentive Stock Options be repealed and REAL relief be provided to taxpayers throughout the country caught in similar or graver situations. Accelerated refund of tax credits (3 – 5 years) would be a start, even though it will not undue the damage we have somehow lived through. People should not have to pay taxes on income that is never realized. People in our situation should not be treated like common criminals, like we were committing some kind of fraud against the government. My husband and I honestly reported our liability, and attempted to work out a reasonable settlement with the IRS in good faith. We have complied with a broken law to the point of selling all of our assets. If a person is not a criminal, I do not believe he should be treated as one.

We are now beginning our IRS "probation" and our fervent prayer is that we can find the means to be compliant. We cannot afford not to be.

