

August 1, 2009

An example of how GLO CPA's leverages our knowledge base and professional contacts to produce extraordinary results for our Clients:

Described below in detail is the work we've just completed for a Client who was facing an enormous tax burden from exercising his Incentive Stock Options (ISO's).

Through a combination of tax projections, interface with the right professionals at the right time and creative use of tax regulations, **we were able to reduce an alternative minimum tax liability from more than \$433,000 to just under \$24,000 and change ordinary taxable income from \$222,000 to a *loss* of more than \$102,000.**

That loss can now be carried back to prior years on his 1040, recouping income taxes previously paid in those years, or can be carried forward to significantly reduce taxable income in the future.

We were able to turn what was seemingly **an overwhelming tax burden into tax savings AND as you'll see below, a pension benefit that the Client never considered possible.**

The specifics are as follows:

Our Client had been granted Incentive Stock Options (ISO's) in 2001 and in 2005 and came to us to help him assess how large his tax liability would be when he exercised them. He also needed help in understanding how he could possibly pay what he knew would be a very large tax liability that had been created by a non-cash transaction.

The facts of the case were:

- The Client's taxable income for 2009 was estimated to be \$222,000. His regular tax liability based upon the estimated taxable income is \$51,000.
- The ISO's exercise price was \$0.40 per share for his 79,000 2001 options and \$1.50 per share for his 25,000 2005 options.
- The original fair market value of the stock when the Client first came to us was assumed to be \$13.35/sh, the price at which the Client's company had offered to buy back the ISO in a 2008 tender offer.

- *The exercise of an ISO is not a taxable event. However, the bargain element of the transaction is used in the calculation of the alternative minimum tax. The “bargain element” is the excess of the fair market value of the stock over the exercise price of the option.* At the FMV of \$13.35 per share, the “bargain element” in exercising the Client’s ISO’s would be \$1,309,300. Using this bargain element in the calculation of the Client’s AMT, the tentative minimum tax would be more than \$433,000.

The first step in our approach to the problem was to find a way to lower the bargain element on the exercise of the ISO’s. In order to do that, we contacted Daniel Bass, the Managing Director of Carson Medlin Co. Investment Bankers.

Mr. Bass reassessed the fair market value of the stock using various discounting techniques and eventually established the necessary support to revalue of the stock at close to \$3.00 per share – a reduction of \$10.35/sh. By reducing the fair market value of the stock from \$13.35 to \$3.00, the tentative minimum tax on the exercise of the ISO’s dropped from \$433,000 to \$132,000.

The second step that was used to lower the tentative minimum tax was to lower alternative minimum taxable income. The solution was the creation of an S Corporation through which our Client is able to make contributions to a defined benefit pension plan.

By contributing \$325,000 to his own pension plan through this S Corporation, the Client created a loss that would flow through to his 1040, reducing his alternative minimum taxable income from \$485,000 to \$160,000 and his tentative minimum tax from \$132,000 to \$24,000.

This loss also reduced the Client’s current taxable income from \$222,000 to a loss of \$103,000 which the Client will be able to carry back or forward to offset earnings in prior or future years’ 1040’s, thereby recouping taxes previously paid or reducing future taxable income.

We consider this another remarkable yet not unusual example of our ingenuity, our broad interface with equally talented professionals in other disciplines and our creative work to assist Clients in retaining and creating wealth.

GLO CPAs, LLLP can assist you and your business. Let us help you so that you can focus on taking care of business.