



<http://finance.senate.gov>
Press_Office@finance-rep.senate.gov

Floor Speech of Sen. Chuck Grassley
on His Filed Amendment to Repeal the AMT
Delivered Thursday, March 22, 2007

Mr. President, lately, we have heard a lot about the AMT and the difficulties involved in fixing it. The AMT is not a new problem and has been with us for several decades. The AMT problem is the polar opposite of the tax gap. That is, it is a tax that is defined as known and paid but which nobody wants to collect.

The individual minimum tax, the precursor to our AMT, was originally enacted in 1969, about 38 years ago. Congress had discovered that 155 taxpayers with incomes greater than \$200,000 were not paying any taxes at all. It was originally calculated that the new individual minimum tax would only affect 1 in 500,000 taxpayers. Clearly the situation has changed dramatically in the last 38 years.

Though not its only flaw, the AMT's most significant defect is that it is not indexed for inflation. This failure to index the exemption and rate brackets, the parameters of the AMT system, is also a bipartisan problem. Though \$200,000 was an incredible amount of money in 1969, the situation is different today. I'm not saying \$200,000 is not a lot of money, because it is, but \$200,000 will buy less today than it did in 1969.

In 2004, the most recent year for which the IRS has complete tax data, more than 3 million families and individuals were hit by the AMT. In this chart, you can see a breakdown by state of families and individuals who paid the AMT, even with our hold-harmless provision in place.

This doesn't even begin to hint at what will happen if we do not continue to protect taxpayers from the AMT. Barring an extension in the hold harmless contained in the 2006 tax bill, AMT exemptions will return to their pre-2001 levels. At the end of 2006, provisions allowing nonrefundable personal tax credits to offset AMT tax liability expired. If further action is not taken it is estimated that the AMT could claim 35 million families and individuals by the end of this decade. Think of it, a tax originally conceived to counter the actions of 155 taxpayers could consume 35 million filers in just a few years. Some analyses show that in the next decade it may be less costly to repeal the regular income tax than the AMT.

The AMT is a problem that has been developing for a while—almost 40 years. On numerous occasions, Congress has made adjustments to the exemptions and rates, though not as part of a

sustained effort to keep the AMT from further absorbing our nation's middle class until 2001.

Despite these temporary measures, the AMT is still a very real threat to millions of taxpayers who were never supposed to be subject to a minimum tax. That the AMT has grown grossly beyond its original purpose, which was to ensure that the wealthy were not exempt from an income tax, is indisputable, and that the AMT is inherently flawed would seem to be common sense.

Despite widespread agreement that something needs to be done about the AMT, agreement on what exactly to do is not so widespread. A major factor in the disagreement relates to the massive amount of money the AMT brings to the federal government. In 2004, AMT filers paid more than \$12.8 billion into the Treasury.

If we don't extend the most recent AMT hold-harmless that actually expired at the end of 2006, that number is projected to balloon to a much greater amount, and long term budget forecasts currently show this greater amount coming into the Treasury. When forecasters put their projections together, they are working under the assumption that the hold-harmless that was extended in last year's tax bill will not be extended, because they base their assumptions on current law. Because of this, budget planners make the assumption that revenues will be much higher than everyone who is frustrated with the AMT thinks they ought to be.

The reason for this is that the AMT "balloons" the revenue base, as it is projected to increase revenues as a percentage of GDP. There is a great deal of evidence to support this.

The non-partisan Congressional Budget Office has consistently forecast a ballooning of AMT revenues year after year. This chart, reproduced from CBO's "The Long-Term Budget Outlook," published in December of 2005, shows how total federal revenues are expected to push through the 30-year historical average and then keep going up.

I just want to note that although the "Tax Increase Prevention and Reconciliation Act of 2005" was signed into law after this analysis was published, the 2006 tax bill extended the AMT hold-harmless only through 2006, and this chart shows federal revenues all the way to 2050. It is important to note the long term effects of the AMT on the revenue base.

There may be some doubters who hesitate to attribute this ballooning of revenues to the AMT, but this next chart illustrates the drastic expansion of the AMT, under current law, over the next 43 years.

The CBO's report also states that "by 2050, roughly 15 percent of individual income tax liability would be generated by the AMT, compared with about 2 percent today." And this is what will happen if we don't do anything.

The problem with all of the projections showing the AMT ballooning revenues is that these projections are used to put together the budget. This is a bipartisan problem by the way. Republican and Democratic budgets rely on the same source of revenue. This means that the central problem in dealing with the AMT is money. There are some people who say we can only solve the AMT if offsetting revenue can be found to replace the money that the AMT is currently forecast to collect.

Anyone who says this sees the forecasts showing revenues being pushed up as a percentage of GDP and wants to keep them there. These arguments are especially ridiculous when one considers that the AMT was never meant to collect so much revenue – it is a failed policy in many ways.

The AMT has even failed in its objective to ensure that no citizen, no matter how wealthy, was able to completely avoid the federal income tax. In 2004, IRS Commissioner Mark Everson informed the Finance Committee that the same number of taxpayers, as a percentage of the tax filing population at large, continues to pay no federal income tax. According to an IRS analysis of tax year 2003 data, 2,366 taxpayers with incomes of \$200,000 or more who did not use the medical and dental expense deduction had no income tax. The AMT has failed in every way except for the ability to raise very large sums of money. While it may be hard for some to turn down taxpayer money, whether we are supposed to collect it or not, no one has trouble spending it.

It is simply unfair to expect taxpayers to pay a tax they were never intended to pay, and it is even more unfair to expect them to continue paying for that tax once we get rid of it. The reform or repeal of the AMT should not be offset because it is money we were never supposed to collect in the first place.

The way to solve this problem is to look on the other side of the ledger, to the spending side. Budget planners need to take off their rose-colored glasses when looking at long-term revenue projections and read the fine print.

In general it is a good idea to spend money within your means and that is true in this case as well. If we start trying to spend revenues we expect to collect in the future because of the AMT, we will be living beyond our means. We need to stop assuming that record levels of revenue are available to be spent and recognize that the AMT is a phony revenue source.

As we consider how to deal with the AMT, we must first remember that we do not have the option of not dealing with it. The problems will only get worse every year and make any solution more difficult. We must also be clear that the revenue the AMT would not collect as the result of repeal or reform should not be offset as a condition of the repeal or reform. We shouldn't call it lost revenue because it is revenue we never really had to begin with.

A few weeks ago I presented to this body a Joint Tax estimate of how various proposed fixes to the AMT will impact revenues expected to be collected under current law.

I noted that, full repeal aside, each of these proposals will still allow the AMT to bring hundreds of billions of dollars into the treasury. If you consider any proposal aside from full repeal, you are saying that hundreds of thousands if not millions of people out there deserve to bear the burden of the AMT.

Suppose we are able to continue enacting 1 or 2 year temporary patches. First, this strategy assumes that Congress will have the time and inclination to spend time dealing with the AMT every year or two. This means that whatever the issues of the day may be—Iraq, unemployment, or natural disasters—Congress will have to stop dealing with those other problems and return to the AMT. Is the AMT an issue that we as a legislative body want to revisit every year?

Second, every time Congress attempts to enact or extend a patch, the same revenue issues are going to come up. Budget projections create the illusion of foregone revenues given up because of an AMT hold-harmless. Every time a patch is considered, there is another chance for taxpayers to be subject to a stealth tax increase.

Clearly there is only one way to fix the AMT so that no taxpayer is subjected to what has become a complete policy failure. We must completely repeal the individual AMT. There is a bipartisan consensus that only complete repeal is an adequate solution to this problem. Chairman Baucus, along with myself, Senator Crapo, Senator Kyl, Senator Roberts, Senator Schumer, and Senator Smith, last month introduced the *Individual Alternative Minimum Tax Repeal Act of 2007*.

We must repeal the AMT and we must do it without offsetting any revenue the AMT is expected to collect in the future. I've made this point before, but it is important.

The AMT was never intended to be a significant source of revenue. Despite this, the AMT will balloon federal revenues to historically high levels if something isn't done.

If we consider the AMT to be a fundamentally unfair tax, any tax that would replace it would be equally unfair. Anyone who wants equity to be a fundamental value represented by our tax code or who wants fair treatment for this country's taxpayers must support my amendment for complete repeal of the individual AMT.

Mr. President, I filed an amendment that repeals the AMT. I'm going to push this body to speak on this proposal for these reasons:

1. Get members who say they support AMT repeal to show their support for the record.
2. Eliminate the mythical budgeting that results from assuming current level AMT revenues.
3. Show the American people that we will walk the walk on AMT reform and not just talk the talk.

Mr. President, I know some who oppose my amendment will argue two points:

1. That there is \$180 billion in the budget for tax relief; and
2. That we can't "afford" to repeal the AMT.

As to the first point, the purpose of the Baucus amendment, which I supported yesterday, was to deal with less than half of the tax relief that expires in 2010. So, in a sense, members have already indicated where they want that money to go. And that revenue loss is built into the post-2010 period.

As to the second point, we can afford to repeal the AMT because revenue remains at or above record levels in the out years with the AMT gone. Honest budgeting would recognize it is fictional in any event.

I yield the floor.