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Press_Office@finance-rep.senate.gov

Floor Speech of Senator Chuck Grassley
Alternative Minimum Tax Trial Balloons
Delivered Wednesday, June 13, 3007

Once again I have come to the floor to discuss the Alternative Minimum Tax. I'm sure many have noticed that the AMT is frequently a subject of my speeches, and they may be wondering how long I intend to keep talking about it. The simple answer is that I intend to keep talking about the AMT until this Congress actually takes action. Instead of taking action, this Congress has done absolutely nothing and the problem continues to get worse for millions of Americans who will be caught by the AMT, and are now being caught. When I speak of those now being caught, I am referring to those families who make estimated tax payments and who will be making their second payment this Friday.

Last year, in 2006, 4 million families were hit by the AMT. I think this was 4 million too many, but it is considerably better than the 23 million who will be hit this year, in 2007. The reason we are experiencing this large increase this year is that in each of the last 6 years, Congress has passed legislation that temporarily increased the amount of income exempt from the AMT. These temporary exemption increases have prevented millions of middle class Americans from falling prey to the AMT, until now. While I have always fought for these temporary exemptions, I believe that the AMT ought to be permanently repealed. One reason I have previously given for permanent repeal is that it may be difficult for Congress to revisit the AMT on a temporary basis every year, and the current situation is proving me right.

The new Congress has yet to undertake any meaningful action on the AMT. Several proposals have been tossed around by the other body, and I have discussed a few of them here in earlier speeches. I generally find these proposals lacking, but completely agree with my colleagues that something needs to be done. At least I seem to agree. Despite assurances that AMT relief is an important issue, nothing has actually been put forward as a serious legislative solution. I think this chart best reflects how the AMT has been handled by this Congress so far. Numerous proposals have been talked about, but that is all. An academic discussion is not a substitute for real action, as anyone making a quarterly payment on Friday will attest to.

I've also come to realize that the best way to learn about new proposals to deal with the AMT is not to check for new legislation in the Congressional Record, but to check a newspaper. In the course of reading "The Washington Post" last Friday, I came across another trial balloon for a new idea in

the business section. A lot of people were out of town on Friday, so I ask unanimous consent that the article titled "Democrats Seek Formula to Blunt AMT" be printed in the record. The concept underlying the AMT fixes highlighted in this article is that the AMT could be abolished for families and individuals making less than a given amount, and that the resulting revenue loss would then be offset by a surtax on what the article refers to as our "nation's wealthiest households."

There are two basic proposals laid out in the article. One of them, put forward by a member of the Ways and Means Committee, would use a 4.3 percent surtax on income over \$500,000 to offset the elimination of the AMT for families earning less than \$250,000 a year. It is estimated in the article that the surtax of 4.3 percent would affect about 1 million families. It is also suggested that AMT bills would be decreased for families earning between \$250,000 and \$500,000 annually as part of this option. I'm not sure how individuals would be treated in this plan. Interestingly, immediately after the insistence that this option enjoys a great deal of support, the article notes that details of the plan have yet to be released. In the tax world the devil is in the details, so I am curious as to exactly what it is that is enjoying broad support.

I will note that Ways and Means members have now denounced the "surtax" label. I ask unanimous consent to have printed in the record an article from "Tax Notes Today" dated June 13, 2007.

The other plan comes from our friends at the Tax Policy Center. In a similar plan to the one I just discussed, a 4 percent surtax would be charges to individuals with adjusted gross incomes above \$100,000 and couples with incomes above \$200,000. The surtax would apply to income above those thresholds and the thresholds would be indexed for inflation after 2007. Under this option the AMT would be complete repealed.

Just to give an idea of how many people would be hit by the surtax, according to IRS statistics of income, in 2004, 1,427,197 returns were filed by singles reporting adjusted gross incomes of at least \$100,000. In the same year, married persons filing jointly filed 2,569,288 returns reporting adjusted gross incomes of \$200,000 or more. 2004 is the most recent year we have this data for.

I realize that the proposal hits singles with incomes greater than \$100,000 and my numbers would include someone with an income exactly at that amount, but we can see that the Tax Policy Center's plan would impact roughly 4 million singles and joint files. It would likely impact more than that, since my numbers do not include heads of households or other categories, but you get the idea that a lot of people would still be impacted.

Now, as I said before, I'm glad that people are thinking about the AMT and realize that it is a problem, but as I've discussed more and more of these proposals I've started to see them as more smoke and mirrors than actual legislative proposals. For one thing, legislation isn't introduced in a newspaper, even "The Washington Post." I keep hearing about proposal after proposal, but nothing is actually done. Everyone seems to agree that something needs to be done quickly, but the discussion doesn't go any further from there. I spoke about the AMT at the beginning of the Congress; when the first quarterly payment was due; I'm here now that the second quarterly payment is due; and I bet I will be here when the third payment comes due, saying largely the same thing.

Aside from the fact that Congress doesn't seem to be under any pressure to actually take action, all of the proposals I have discussed here share the same major flaw in that they seek to offset any revenues not collected through reform or repeal of the AMT. Notice I said "not collected" and not "lost."

This distinction is important for the simple reason that the revenues that we do not collect as a result of AMT relief are not lost. The AMT collects revenues it was never supposed to collect in the first place. Originally conceived as a mechanism to ensure that high income taxpayers were not able to completely eliminate their tax liability, the AMT has failed. In 2004 IRS Commissioner Everson told the Finance Committee that the same percentage of taxpayers continues to pay no federal income tax. The AMT was originally created with just 155 taxpayers in mind, and of the two plans I discussed earlier, the one that would impact the lower number of filers would still hit about one million families. One million from 155.

Finally, if we offset revenues not collected as the result of AMT repeal or reform, total federal revenues are projected to push through the 30-year historical average and then keep going. This chart, which is reproduced from the nonpartisan Congressional Budget Office's "The Long-Term Budget Outlook" issued in December of 2005, illustrates the ballooning of federal revenues. The AMT is a completely failed policy that is projected to bring in future revenues that it was never designed to collect.

The best solution to this mess would be to support S. 55, the "Individual Alternative Minimum Tax Repeal Act of 2007" as introduced by Chairman Baucus and myself along with Senators Crapo, Kyl and Schumer. Senators Lautenberg, Roberts and Smith have also signed on as cosponsors.

While permanent repeal without offsetting is the best option, we absolutely must do something to protect taxpayers immediately, even if it involves a temporary solution such as an increase in the exemption amount. Of course, if we do that we are going to be in the same fix next year and I will be making the same points again.

This Friday, taxpayers making quarterly payments are going to once again discover that the AMT is neither the subject of an academic seminar nor a future problem we can put off dealing with. The AMT is a real problem right now, and if this Congress is really serious about tax fairness it needs to stand up and take action.