



THE TAXPAYER CHOICE ACT

SUMMARY

The Taxpayer Choice Act is a comprehensive, individual income tax reform with two principal aims: 1) eliminating the massive tax increase that will occur under the forthcoming expansion of the Alternative Minimum Tax [AMT]; and 2) providing individuals an alternative tax system that is fair, simple, and efficient (the “Simplified Tax”). It calls for no tax increases – as other AMT “reform” options would do – and it retains a fair distribution of tax burdens. Above all, it offers a choice: taxpayers can choose the new, simplified system or stay with the current tax code – whichever option suits them.

HIGHLIGHTS

- ***Provides Comprehensive Reform.*** The Taxpayer Choice Act establishes a highly simplified *alternative* to the current individual income tax, one designed to keep federal tax revenue near its historical level as a share of the overall economy. It does not impose automatic tax increases resulting from complex tax code structures or arcane legislative procedures. It has a broad tax base, allowing for simplicity and clarity.
- ***Eliminates the AMT.*** This proposal eliminates the \$841-billion tax increase that would result from the automatic expansion of the Alternative Minimum Tax [AMT], or from other tax increases imposed ostensibly to “offset” the AMT.
- ***Offers Taxpayer Choice.*** Under this proposal, taxpayers can choose either to pay their taxes under the Simplified Tax or to continue paying taxes under the existing code. The advantages of the new tax system lie mainly in its simplicity and transparency: it has just two income tax rates (10 percent and 25 percent), a generous standard exemption amount, and no special tax preferences.
- ***Maintains Growth-Oriented Tax Relief.*** The bill makes permanent the capital gains and dividend tax relief of 2003.
- ***Retains the Current Allocation of Tax Burdens.*** Analysis shows that if all taxpayers chose to pay taxes under the Simplified Tax, the distribution of tax burdens among income groups would remain close to what it is today. Thus there are no special advantages for higher income taxpayers under this proposal.
- ***Deters “Gaming.”*** The proposal deters year-by-year tax code switches (“gaming”) aimed at avoiding legitimate tax liabilities. In general, individuals can choose to pay taxes under the new system at some point within 10 years of the date of enactment. After that initial choice, individuals are allowed *one* additional changeover between the two tax systems over the course of a lifetime. Individuals are also allowed to change tax systems if a major life event (death, marriage, divorce) alters their filing status. Otherwise the choice is essentially permanent.

AMT BACKGROUND

The Alternative Minimum Tax [AMT] was designed in 1969 as a mandatory add-on to the existing tax code. It was aimed at preventing 155 wealthy taxpayers from exploiting loopholes in the tax code to escape legitimate tax obligations. But because it was never indexed for inflation, the AMT in 2008 will subject close to 30 million more taxpayers to an automatic tax increase. Most of these folks are far from rich. Under current tax law, for instance, in tax year 2007, about 70 percent of married taxpayers (with children) earning \$75,000 to \$100,000 will be subject to AMT. Over the next 10 years, the AMT's scope will impose \$841 billion in higher taxes, mostly on middle-income families. Under the AMT law, these millions of taxpayers will be required to calculate their taxes two ways – under the existing code, and under the AMT – and then *pay the higher tax*. This is clearly an illegitimate tax that should be repealed.

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