November 9, 2007

Questions and Answers on the AMT Bill

Q. Won't the bill hinder American innovation?

A. No. The bill closes tax loopholes that allow the privileged few on Wall Street to pay a lower tax rate on their income than other hardworking Americans, such as teachers and firefighters. Under the bill, investment fund managers would no longer receive a lower capital gains rate of 15 percent for what is essentially a management fee or payment for services, but instead would pay ordinary tax rates. The bill would not affect the tax rate on profits that fund managers make on investments with their own money and would not affect the other investors in these funds. Most economists, including Greg Mankiw, former chair of the Council of Economic Advisers under President Bush, tax officials in the Bush and Reagan Administrations and the Congressional Budget Office have said that carried interest should be taxed at the same rate as other compensation for such services.

"The bill would not affect the other investors in these funds, nor would it affect the tax rate for profits that fund managers make on investments with their own money… Critics of the two bills argue that investment fund managers should be rewarded for taking high risks. But these fund managers, for the most part, are not risking their own money… Besides, plenty of risky industries don't enjoy comparable tax benefits. Income earned from managing an investment partnership fund should be treated just like the income earned for providing any other service." ***– (The Washington Post, 7/13/07)***

Q. Won't the bill stifle the economy?

A. No. The bill is full of provisions that will grow the economy:

- Tax Cuts for the Middle Class – The bill provides $50 billion in tax relief to protect 23 million middle-class families from being hit by the Alternative Minimum Tax. It increases the AMT exemption amount to $66,250 for joint filers and $44,350 for individuals. For example, the bill would stop a married couple with two kids making $80,000 from being hit with a $1,500 tax bill, or a married couple with three kids making $70,000 from a $900 bill. America's middle-class families are the backbone of our economy, and providing them with tax relief will boost consumer spending and strengthen our economy.
- Extends the R&D tax credit to promote innovation and high-paying jobs. This credit benefits companies of all sizes and across all sectors and encourages companies to keep their research and development, and the related jobs in America, at a time of growing global competition.
- Provides $8 billion in tax relief for real estate to shore up the sagging housing market -- including tax relief to millions of homeowners suffering from the current housing crisis and providing up to 30 million homeowners with property tax relief;
- Adheres to pay-as-you-go budget rules, which helped produce record budget surpluses and a robust economy in the 1990s by mandating no new deficit spending.

The bill includes provisions supported by a range of business organizations, including the National Association of Realtors, the R&D Coalition, and the Mortgage Insurance Companies of America.

Q. Why should we pass this bill when it is dead on arrival in the Senate?

A. Senate Majority Leader Harry Reid has vowed to pass AMT relief that is "paid for." "I think it's something we should be very proud of…We're not going to continue with the Republican process ... where they did not pay for anything. I think we should pay for it." (Washington Times, 11/5/07)

Q. Why should we pay for the AMT patch?

A. When we took over Congress, we made a promise of New Direction of fiscal responsibility. No more piling on debt on the backs of our children and grand children, no more borrowing from China. We made a pledge of pay as you go budget discipline, no new deficit spending and we have complied with the critical promise. In fact, the House has passed legislation that will reduce the deficit by about $8 billion and we have been commended for that:

> "The Committee for a Responsible Federal Budget is pleased that Congress has adhered to the principle of PAYGO. We believe that the requirement has forced Congress to face important budgeting tradeoffs and delay actions they were unwilling to pay for, all of which helps to prevent the budget picture from deteriorating." (10/18/07)

> "The House of Representatives has complied with its new PAYGO rule to date. The record of compliance stands in contrast to $1.3 trillion in cumulative violations of the PAYGO principle (i.e., $1.3 trillion in deficit-financed tax cuts and entitlement increases for the period 2001-2006) enacted by the previous three Congresses… almost three-fourth of the savings contained in tax and entitlement legislation to date have been entitlement cuts while only one-fourth have been tax increases." (Center on Budget and Policy Priorities, 11/7/07)

But now is the key test: "The House bill holds true to the pay-as-you-go rule when doing so matters most, that is, when large sums and difficult trade-offs are at stake. It undoes a tax injustice. And maybe, just maybe, the money men in the Senate can be swayed by example." (New York Times, 11/8/07)

"How this job is accomplished will show whether congressional Democrats are willing to live up to the pay-as-you-go obligations they imposed on themselves when they retook control of Congress." (Washington Post, 11/8/07)

Budget watchdogs including the Concord Coalition, the Committee for a Responsible Federal Budget, the Center on Budget and Policy Priorities and the Committee for Economic Development have urged us to stick with our budget discipline as we deal with the AMT: "We are joining together again today, as lawmakers turn to year-end measures such as extending Alternative Minimum Tax relief, to urge in the strongest possible terms that they keep faith with their commendable pledge to strictly enforce PAYGO." (10/30/07)

"With an estimated revenue loss of $50 billion for the AMT patch alone, strict adherence to PAYGO in this legislation is both necessary as a matter of budgetary discipline and desirable as a means of compelling the types of trade-offs that must be made for a sustainable fiscal future. It presents a choice between paying our own way, which we clearly have the capacity to do, or continuing to run up a legacy of debt for future generations of Americans to pay off." (Concord Coalition, 11/8/07)

Republicans say we should not pay for it just as they said that the Bush tax cuts would pay for themselves. And how did that work out? Republican policies have resulted in $9 trillion of national debt, with an average daily interest payment of more than $1 billion. Each American's share of this debt is about $30,000 per person. As the *Washington Post* put it, "…[the Democrat bill is preferable, though, to the approach of congressional Republicans and the Bush administration, which is to <u>not offset the tax cut with new taxes or spending cuts</u>. House Minority Leader John A. Boehner (R-Ohio) was illustrative of the irresponsibility. 'Tax relief pays for itself by creating more American jobs for more taxpayers to strengthen our economy,' he said in a statement. Perhaps <u>Mr. Boehner believes that the Tax Fairy will simply leave $50 billion under the IRS's pillow</u>; there is no economic basis for his statement that 'tax relief pays for itself.'"(Washington Post, 11/8/07)