

AMT TAX RELIEF

23 million middle-class families: This bill would provide 23 million middle-class families with over \$50 billion in tax relief by protecting these taxpayers from paying the alternative minimum tax (AMT).

The bill would extend for one year AMT relief for nonrefundable personal credits and increases the AMT exemption amount to \$66,250 for joint filers and \$44,350 for individuals.

2007 PROJECTED AMT RETURNS BY STATE

Rank	State	# Returns
1	California	3,029,422
2	New York	1,744,799
3	Texas	1,270,514
4	New Jersey	1,096,391
5	Pennsylvania	1,059,312
6	Illinois	1,047,326
7	Florida	976,699
8	Michigan	851,431
9	Ohio	834,084
10	Massachusetts	770,366
11	Virginia	694,054
12	Maryland	669,684
13	North Carolina	660,205
14	Georgia	580,097
15	Wisconsin	522,636
16	Minnesota	519,855
17	Washington	491,477
18	Connecticut	444,894
19	Missouri	438,665
20	Indiana	411,055
21	Colorado	340,342
22	Tennessee	317,998
23	Arizona	315,436
24	South Carolina	260,675
25	Oregon	246,544
26	Kentucky	233,925
27	Alabama	232,221
28	Kansas	213,689
29	Louisiana	209,830
30	Iowa	206,939
31	Oklahoma	152,919
32	Arkansas	133,606
33	Nevada	128,553
34	Utah	128,228
35	New Hampshire	122,530
36	Nebraska	110,655
37	Mississippi	98,329
38	New Mexico	91,631
39	Hawaii	91,254
40	Rhode Island	90,095
41	Idaho	85,984
42	Maine	84,226
43	West Virginia	84,174
44	Delaware	81,139
45	Montana	49,765
46	Vermont	49,718
	District of	
47	Columbia	46,811
48	Alaska	45,346
49	Wyoming	44,549
50	South Dakota	41,658
51	North Dakota	34,721

Rank	State	# Returns
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The Alternative Minimum Tax

WHAT IS IT?

- The alternative minimum tax (AMT) was enacted in 1969 after Congress discovered that **155 wealthy taxpayers** making over \$200,000 had **paid no income tax**.
- Certain taxpayers must compute their tax liability twice: first under the regular system and then using the AMT formula. The taxpayer's liability is the **higher** of the two calculations.
- The AMT has changed dramatically over the years. Most of the tax preference items that justified the AMT have been removed.
- In 2006, more than 90% of the tax items caught in the AMT were personal exemptions, including exemptions for dependent children, deductions for state and local taxes, and miscellaneous business deductions.
- The AMT is unfair and unfriendly to families and married couples, and married couples are 15 times more likely to pay the AMT than single taxpayers

WHO PAYS IT?

- AMT has morphed from a “**class tax**” to a “**mass tax**.”
- In 2006, about 4.2 million Americans paid the AMT. If Congress does not act now **23 million** Americans will pay **higher taxes in 2007**.
- According to the Joint Committee on Taxation, almost half of the 23 million are **married taxpayers with children**.
- The Joint Committee on Taxation also reported that **97% of married taxpayers with children earning between \$100,000-\$200,000 will face higher taxes because of the AMT**.
- The National Taxpayer Advocate estimates that the average AMT taxpayer will owe an **additional \$6,782 in tax**.
- Small businesses are also hurt by the individual AMT. Income from sole proprietorships, non-farm and farm, Subchapter S corporations and partnerships is reported directly on a taxpayer's return.
- IRS data shows that in 2004 **91%** of non-farm sole proprietorships had **business receipts of less than \$200,000**, putting small business in the income group hardest hit by the AMT.

What Does The Legislation Do?

- H.R. 3996 ensures that **no additional taxpayers will pay the AMT this year**.

Taxpayers Hit by the AMT - 2007

By Income Class

ADJUSTED GROSS INCOME	RETURNS (Thousands)	AMT + LOST CREDITS	% TAXPAYERS AFFECTED BY AMT
Less than \$20,000	24	\$296	0.0%
\$20,000-\$40,000	169	\$80	0.5%
\$40,000-\$50,000	443	\$264	4.0%
\$50,000-\$75,000	2,477	\$1,812	12.5%
\$75,000-\$100,000	5,670	\$6,301	49.0%
\$100,000-\$200,000	10,794	\$28,158	81.0%
\$200,000-\$500,000	3,236	\$28,098	95.3%
\$500,000-\$1,000,000	303	\$4,176	49.8%
\$1,000,000 and above	81	\$4,122	22.3%
Total	23,197	\$73,311	13.8%

Note: Numbers are represented in thousands.

Source: Joint Committee on Taxation.

Bush Tax Cut Lost to AMT

2007 INCOME LEVEL	AMOUNT OF BUSH TAX CUT LOST TO AMT	PERCENTAGE OF BUSH TAX CUT LOST TO AMT
\$70,000	\$427	21%
\$80,000	\$1,527	59%
\$100,000	\$2,527	63%
\$150,000	\$3,027	67%
\$200,000	\$2,111	35%

Source: Joint Committee on Taxation.

Families Hit By AMT - 2007

Income level at which AMT begins to hit typical filer

NUMBER OF CHILDREN	NONE	1	2	3	4	5	6
INCOME POINT FOR AMT	\$75,386	\$70,750	\$66,114	\$61,477	\$56,841	\$52,205	\$49,438

Source: Congressional Research Service.

“Take Back” Effect of AMT in 2007

On Recent Tax Cuts for Married Couples with Two Children Under 17 Years Old

2007 Income Levels	Income Taxes Assuming Pre- 2001 Tax Law (Pre-tax Cut)	Income Taxes Assuming Current Law	AMT under Current Law	AMT Take Back of Enacted Tax Cuts	Percentage of Tax Cut Lost to AMT
\$70,000	\$6,118	\$4,073	\$4,500	\$427	21%
\$80,000	\$8,177	\$5,573	\$7,100	\$1,527	59%
\$100,000	\$13,777	\$9,773	\$12,300	\$2,527	63%
\$150,000	\$28,777	\$24,273	\$27,300	\$3,027	67%
\$200,000	\$44,247	\$38,189	\$40,300	\$2,111	35%

Note: Assumes earned income, use of standard deduction, and that the only personal tax credits claimed are the child tax credit.

Source: Congressional Research Service

2007 Projected AMT Returns by District

¹Rank	Member	# Returns
1	Ferguson - NJ - 07	124,333
2	Frelinghuysen - NJ - 11	122,130
3	Holt - NJ - 12	121,503
4	Garrett - NJ - 05	120,292
5	Wolf - VA - 10	115,542
6	Tom Davis - VA - 11	111,104
7	Maloney - NY - 14	110,859
8	Eshoo - CA - 14	109,964
9	Sensenbrenner - WI - 05	109,878
10	King - NY - 03	108,349
11	Van Hollen - MD - 08	107,990
12	Price - GA - 06	104,598
13	Hall - NY - 19	103,401
14	Campbell - CA - 48	102,926
15	Knollenberg - MI - 09	102,842
16	Israel - NY - 02	102,487
17	Hoyer - MD - 05	102,221
18	McNerney - CA - 11	101,884
19	Lowey - NY - 18	101,736
20	Biggert - IL - 13	101,491
21	Shays - CT - 04	101,164
22	Honda - CA - 15	99,982
23	Akin - MO - 02	98,256
24	Bishop - NY - 01	97,341
25	Waxman - CA - 30	97,107
26	Gerlach - PA - 06	96,931
27	Moran - VA - 08	96,663
28	Patrick Murphy - PA - 08	96,526
29	Tierney - MA - 06	94,941
30	Bilbray - CA - 50	94,678
31	Ramstad - MN - 03	94,494
32	Reichert - WA - 08	94,061
33	Kline - MN - 02	93,842
34	Tancredo - CO - 06	93,736
35	Courtney - CT - 02	93,591
36	Sestak - PA - 07	93,181
37	Gilchrest - MD - 01	92,582
38	Tauscher - CA - 10	92,246
39	Saxton - NJ - 03	91,978
40	Bartlett - MD - 06	91,946

41	Lantos - CA - 12	91,737
42	Price - NC - 04	91,683
43	McCotter - MI - 11	91,319
44	Jones - NC - 03	91,182
45	Smith - NJ - 04	90,045
46	Kirk - IL - 10	89,883
47	(Meehan) - MA - 05	89,389
48	Murphy - CT - 05	89,009
49	Reynolds - NY - 26	88,864
50	Gary Miller - CA - 42	88,632
51	Sarbanes - MD - 03	87,661
52	Lipinski - IL - 03	87,053
53	McCarthy - NY - 04	86,785
54	Myrick - NC - 09	86,075
55	Lynch - MA - 09	85,344
56	Rohrabacher - CA - 46	85,036
57	Bachman - MN - 06	84,769
58	Frank - MA - 04	84,188
59	Gallegly - CA - 24	83,814
60	Markey - MA - 07	83,771
61	Larson - CT - 01	83,109
62	McGovern - MA - 03	82,942
63	Linder - GA - 07	82,356
64	Doolittle - CA - 04	82,319
65	Bean - IL - 08	81,760
66	Castle - DE - AL	81,139
67	Baldwin - WI - 02	80,196
68	Drier - CA - 26	80,180
69	Nadler - NY - 08	80,161
70	Ryan - WI - 01	79,892
71	Miller - MI - 10	78,399
72	Pallone - NJ - 06	78,368
73	Woolsey - CA - 06	78,239
74	DeLauro - CT - 03	78,021
75	Weiner - NY - 09	78,012
76	Lungren - CA - 03	76,689
77	Rogers - MI - 08	76,475
78	Pence - IN - 06	76,010
79	Smith - TX - 21	75,793
80	Harman - CA - 36	75,773
81	Culberson - TX - 07	75,402
82	Schwartz - PA - 13	75,387
83	Sam Johnson - TX - 03	75,313
84	Hastert - IL - 14	74,627

Source - Prepared by Ways and Means Committee Staff based on 2005 IRS Individual Master File data and estimates prepared by Citizens for Tax Justice.

2007 Projected AMT Returns by District

85	Moore - KS - 03	74,508
86	Wynn - MD - 04	74,462
87	Inslee - WA - 01	74,075
88	Cantor - VA - 07	74,074
89	Pelosi - CA - 08	73,893
90	Lampson - TX - 22	72,732
91	Delahunt - MA - 10	72,577
92	Rothman - NJ - 09	72,553
93	Stark - CA - 13	72,419
94	Jo Ann Davis - VA - 01	72,313
95	Hunter - CA - 52	72,166
96	Tiberi - OH - 12	72,028
97	Wu - OR - 01	71,756
98	Roskam - IL - 06	71,371
99	Tim Murphy - PA - 18	71,118
100	Pascrell - NJ - 08	71,093
101	Dent - PA - 15	70,089
102	Altmire - PA - 04	70,003
103	Calvert - CA - 44	69,223
104	Neal - MA - 02	67,612
105	Dingell - MI - 15	67,442
106	Schmidt - OH - 02	67,361
107	Fossella - NY - 13	67,217
108	Boyda - KS - 02	66,572
109	McCaul - TX - 10	66,436
110	Schuler - NC - 11	66,417
111	Gillibrand - NY - 20	66,395
112	Andrews - NJ - 01	66,130
113	Pitts - PA - 16	66,068
114	LaTourette - OH - 14	65,784
115	Burgess - TX - 26	65,500
116	Shea-Porter - NH - 01	64,279
117	Olver - MA - 01	63,640
118	McDermott - WA - 07	63,417
119	Ackerman - NY - 05	63,248
120	Kagen - WI - 08	62,645
121	LoBiondo - NJ - 02	62,559
122	Bachus - AL - 06	62,433
123	Marshall - GA - 08	61,737
124	Manzullo - IL - 16	61,635
125	Mack - FL - 14	61,417
126	Marchant - TX - 24	61,204
127	Platts - PA - 19	61,038
128	McKeon - CA - 25	60,940

129	Weller - IL - 11	60,451
130	Royce - CA - 40	59,808
131	Blackburn - TN - 07	59,719
132	Emerson - MO - 08	59,546
133	McNulty - NY - 21	58,902
134	George Miller - CA - 07	58,558
135	Wilson - SC - 02	58,553
136	Hodes - NH - 02	58,251
137	Petri - WI - 06	58,230
138	Burton - IN - 05	57,901
139	Lee - CA - 09	57,765
140	McCollum - MN - 04	57,520
141	Lofgren - CA - 16	57,424
142	Pryce - OH - 15	57,350
143	Cummings - MD - 07	57,065
144	Udall - CO - 02	57,050
145	Issa - CA - 49	56,763
146	Flake - AZ - 06	56,541
147	Hooley - OR - 05	56,109
148	Walsh - NY - 25	56,069
149	Sutton - OH - 13	55,907
150	Ruppersberger - MD - 02	55,757
151	Mitchell - AZ - 05	55,681
152	McCarthy - CA - 22	55,564
153	Walberg - MI - 07	55,345
154	Schiff - CA - 29	55,118
155	Porter - NV - 03	55,071
156	Schakowsky - IL - 09	54,646
157	Ehlers - MI - 03	54,451
158	Allen - ME - 01	54,410
159	Engel - NY - 17	54,348
160	Kind - WI - 03	54,239
161	Matheson - UT - 02	53,902
162	Forbes - VA - 04	53,822
163	Oberstar - MN - 08	53,683
164	Brown - SC - 01	52,689
165	Holden - PA - 17	52,482
166	Bono - CA - 45	52,438
167	Turner - OH - 03	52,008
168	Hinchey - NY - 22	51,916
169	Baird - WA - 03	51,806
170	Paul - TX - 14	51,690
171	Bilirakis - FL - 09	51,635
172	Boswell - IA - 03	51,602

2007 Projected AMT Returns by District

173	Yarmuth - KY - 03	51,468
174	Hoekstra - MI - 02	51,372
175	Levin - MI - 12	51,362
176	Mica - FL - 07	51,356
177	Coble - NC - 06	51,301
178	Kildee - MI - 05	51,163
179	Klein - FL - 22	51,120
180	Kuhl - NY - 29	50,884
181	Poe - TX - 02	50,856
182	Abercrombie - HI - 01	50,651
183	Buchanan - FL - 13	50,631
184	Thompson - CA - 01	50,617
185	Davis - KY - 04	50,541
186	Graves - MO - 06	50,221
187	Franks - AZ - 02	50,162
188	Carnahan - MO - 03	49,996
189	Boehner - OH - 08	49,893
190	Chandler - KY - 06	49,793
191	Rehberg - MT - AL	49,765
192	Welch - VT - AL	49,718
193	Larson - WA - 02	49,639
194	Shadegg - AZ - 03	49,452
195	Obey - WI - 07	49,427
196	Lewis - CA - 41	49,353
197	Sherman - CA - 27	49,095
198	Visclosky - IN - 01	48,991
199	Walz - MN - 01	48,954
200	Inglis - SC - 04	48,914
201	La Hood - IL - 18	48,841
202	Terry - NE - 02	48,514
203	Carter - TX - 31	48,462
204	Upton - MI - 06	48,459
205	Ellison - MN - 05	48,324
206	Farr - CA - 17	48,321
207	Radanovich - CA - 19	48,219
208	Feeney - FL - 24	48,147
209	Brady - TX - 08	47,870
210	Sali - ID - 01	47,852
211	Emanuel - IL - 05	47,694
212	Camp - MI - 04	47,692
213	Wasserman-Schultz - FL - 20	47,663
214	Wexler - FL - 19	47,360
215	Rodriguez - TX - 23	47,299
216	Broun - GA - 10	47,273

217	Langevin - RI - 02	47,111
218	Hobson - OH - 07	46,944
219	Holmes Norton - DC - Del.	46,811
220	Davis - IL - 07	46,654
221	Giffords - AZ - 08	46,600
222	Mahoney - FL - 16	46,541
223	Miller - NC - 13	46,456
224	Capps - CA - 23	46,453
225	Smith - WA - 09	46,045
226	Capuano - MA - 08	45,962
227	Barton - TX - 06	45,929
228	Cramer - AL - 05	45,879
229	Lewis - GA - 05	45,572
230	Regula - OH - 16	45,531
231	Hall - TX - 04	45,439
232	Young - AK - AL	45,346
233	Crenshaw - FL - 04	44,715
234	Granger - TX - 12	44,674
235	Kaptur - OH - 09	44,563
236	Cubin - WY - AL	44,549
237	Tiahrt - KS - 04	44,455
238	Snyder - AR - 02	44,396
239	Blumenauer - OR - 03	44,285
240	Foxx - NC - 05	44,176
241	Souder - IN - 03	44,115
242	Weldon - FL - 15	43,655
243	Johnson - IL - 15	43,574
244	Loebsack - IA - 02	43,560
245	Davis - CA - 53	43,548
246	Lamborn - CO - 04	43,533
247	Drake - VA - 02	43,490
248	Deal - GA - 09	43,391
249	Kucinich - OH - 10	43,233
250	Heller - NV - 02	43,202
251	Shimkus - IL - 19	43,036
252	Hulshof - MO - 09	42,988
253	Kennedy - RI - 01	42,984
254	Carney - PA - 10	42,719
255	Baker - LA - 06	42,716
256	Johnson - GA - 04	42,426
257	Duncan - TN - 02	42,151
258	Brown Waite - FL - 05	42,029
259	Kanjorski - PA - 11	41,991
260	Musgrave - CO - 04	41,707

2007 Projected AMT Returns by District

261	Herseth Sandlin - SD - AL	41,658
262	Braley - IA - 01	41,651
263	L. Diaz-Balart - FL - 21	41,610
264	Sires - NJ - 13	41,190
265	Keller - FL - 08	41,129
266	Dicks - WA - 06	41,018
267	Sessions - TX - 32	40,932
268	Buyer - IN - 04	40,840
269	Stearns - FL - 06	40,800
270	Goodlatte - VA - 06	40,657
271	Hironi - HI - 02	40,603
272	Arcuri - NY - 24	40,595
273	(Gillmor) - OH - 05	40,595
274	Cleaver - MO - 05	40,441
275	Boozman - AR - 03	40,275
276	Chabot - OH - 01	40,208
277	Wilson - NM - 01	39,820
278	Higgins - NY - 27	39,706
279	Barrett - SC - 03	39,414
280	Gordon - TN - 06	39,376
281	Hill - IN - 09	39,311
282	Herger - CA - 02	39,157
283	DeFazio - OR - 04	38,666
284	Cooper - TN - 05	38,665
285	Spratt - SC - 05	38,401
286	Latham - IA - 04	38,396
287	Jordan - OH - 04	38,385
288	Peterson - MN - 07	38,269
289	Ellsworth - IN - 08	38,171
290	Simpson - ID - 02	38,132
291	English - PA - 03	38,123
292	Schuster - PA - 09	37,999
293	Fortenberry - NE - 01	37,666
294	Donnelly - IN - 02	37,352
295	Bishop - UT - 01	37,285
296	Nunes - CA - 21	37,091
297	Matsui - CA - 05	37,077
298	Perlmutter - CO - 07	37,065
299	Cannon - UT - 03	37,041
300	McHugh - NY - 23	36,676
301	Young - FL - 10	36,576
302	Costello - IL - 12	36,564
303	Lewis - KY - 02	36,277
304	Rodgers - WA - 05	36,196

305	Berman - CA - 28	36,133
306	McHenry - NC - 10	36,000
307	Goode - VA - 05	35,855
308	Kingston - GA - 01	35,745
309	Walden - OR - 02	35,728
310	DeGette - CO - 01	35,699
311	Sullivan - OK - 01	35,655
312	Hastings - WA - 04	35,220
313	Wamp - TN - 03	34,981
314	McIntyre - NC - 07	34,969
315	Capito - WV - 02	34,792
316	Pomeroy - ND - AL	34,721
317	Filner - CA - 51	34,694
318	Jindal - LA - 01	34,631
319	Cole - OK - 04	34,600
320	Boustany - LA - 07	34,235
321	Payne - NJ - 10	34,217
322	Boyd - FL - 02	34,092
323	Hensarling - TX - 05	33,967
324	Peterson - PA - 05	33,732
325	Fallin - OK - 05	33,666
326	Putnam - FL - 12	33,282
327	Ryan - OH - 17	33,180
328	Clay - MO - 01	32,961
329	Wilson - OH - 06	32,767
330	Blunt - MO - 07	32,710
331	Linda Sanchez - CA - 39	32,704
332	Edwards - TX - 17	32,457
333	Miller - FL - 01	32,140
334	M. Diaz-Balart - FL - 25	32,060
335	Ros-Lehtinen - FL - 18	31,848
336	Hayes - NC - 08	31,823
337	Murtha - PA - 12	31,814
338	Slaughter - NY - 28	31,775
339	King - IA - 05	31,730
340	Udall - NM - 03	31,624
341	Salazar - CO - 03	31,552
342	Skelton - MO - 04	31,546
343	Fattah - PA - 02	31,300
344	Neugabauer - TX - 19	31,082
345	Hare - IL - 17	31,054
346	Doyle - PA - 14	30,829
347	Watson - CA - 33	30,731
348	McCrery - LA - 04	30,565

2007 Projected AMT Returns by District

349	Watt - NC - 12	30,460
350	Etheridge - NC - 02	30,333
351	Berkley - NV - 01	30,280
352	Melancon - LA - 03	30,207
353	Bonner - AL - 01	30,204
354	Clark - NY - 11	30,035
355	Crowley - NY - 07	29,989
356	Michaud - ME - 02	29,816
357	Pickering - MS - 03	29,675
358	Wicker - MS - 01	29,551
359	Lucas - OK - 03	29,382
360	Space - OH - 18	29,115
361	Mollohan - WV - 01	28,689
362	Rangel - NY - 15	28,682
363	Carson - IN - 07	28,364
364	Moran - KS - 01	28,154
365	Thornberry - TX - 13	28,138
366	Moore - WI - 04	28,129
367	Meeks - NY - 06	28,018
368	Conyers - MI - 14	27,712
369	Whitfield - KY - 01	27,548
370	Everett - AL - 02	27,473
371	Gingrey - GA - 11	27,403
372	David Davis - TN - 01	27,117
373	Conaway - TX - 11	27,024
374	Gohmert - TX - 01	26,970
375	Lincoln Davis - TN - 04	26,777
376	Rush - IL - 01	26,752
377	Alexander - LA - 05	26,704
378	Rogers - AL - 03	26,316
379	Renzi - AZ - 01	26,226
380	Solis - CA - 32	25,910
381	Cardoza - CA - 18	25,827
382	Scott - VA - 03	25,659
383	Jackson - IL - 02	25,576
384	Ross - AR - 04	24,992
385	Tanner - TN - 08	24,891
386	Boucher - VA - 09	24,875
387	Castor - FL - 11	24,623
388	Richardson - CA - 37	24,535
389	Kilpatrick - MI - 13	24,519
390	Smith - NE - 03	24,475
391	Cohen - TN - 09	24,321
392	Napolitano - CA - 38	24,307

393	Barrow - GA - 12	23,997
394	Berry - AR - 01	23,943
395	Velazquez - NY - 12	23,797
396	Scott - GA - 13	23,725
397	Aderholt - AL - 04	23,382
398	Baca - CA - 43	23,276
399	Stupak - MI - 01	22,879
400	Taylor - MS - 04	22,706
401	Clyburn - SC - 06	22,704
402	Ortiz - TX - 27	22,491
403	Westmoreland - GA - 03	22,447
404	Towns - NY - 10	22,339
405	Waters - CA - 35	20,961
406	Rahall - WV - 03	20,693
407	Pearce - NM - 02	20,187
408	Lee - TX - 18	20,046
409	Reyes - TX - 16	20,015
410	Boren - OK - 02	19,616
412	Bishop - GA - 02	19,427
412	Butterfield - NC - 01	19,330
413	Cuellar - TX - 28	19,273
414	Tubbs Jones - OH - 11	19,232
415	Grijalva - AZ - 07	19,134
416	Hinojosa - TX - 15	19,013
417	Rogers - KY - 05	18,298
418	Brady - PA - 01	17,982
419	E. B. Johnson - TX - 30	17,530
420	Al Green - TX - 09	16,813
421	Davis - AL - 07	16,534
422	Thompson - MS - 02	16,397
423	Loretta Sanchez - CA - 47	16,359
424	Gonzalez - TX - 20	15,848
425	Hastings - FL - 23	15,489
426	Roybal-Allard - CA - 34	15,473
427	Gutierrez - IL - 04	14,664
428	Brown - FL - 03	13,753
429	Becerra - CA - 31	13,482
430	Doggett - TX - 25	13,430
431	Meek - FL - 17	13,028
432	Costa - CA - 20	12,814
433	Pastor - AZ - 04	11,640
435	Gene Green - TX - 29	10,886
435	Jefferson - LA - 02	10,772
436	Serrano - NY - 16	6,213

REFUNDABLE CHILD TAX CREDIT

12.5 million children: This bill would help 12.5 million children by expanding eligibility for the refundable child tax credit, totaling \$2.9 billion in tax relief.

The bill would increase the eligibility for the refundable child tax credit in 2008. The child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of approximately \$11,000 as a result of inflation adjustments to the original floor of \$10,000. The bill would reduce this floor to \$8,500 for 2008.

Number of Children Who Would Benefit From Refundable Child Tax Credit
Provision included in H.R. 3996

State	Children Newly Eligible for the Credit	Children Receiving a Larger Credit	State	Children Newly Eligible for the Credit	Children Receiving a Larger Credit
Alabama	55,800	166,300	Montana	9,300	27,700
Alaska	5,800	17,200	Nebraska	16,400	48,800
Arizona	84,100	250,700	Nevada	28,300	84,200
Arkansas	37,000	110,300	New Hampshire	4,900	14,600
California	492,700	1,468,800	New Jersey	63,000	187,900
Colorado	42,700	127,100	New Mexico	28,800	85,900
Connecticut	20,900	62,300	New York	176,200	525,200
Delaware	6,700	20,000	North Carolina	103,400	308,100
D.C.	4,800	14,200	North Dakota	4,700	14,200
Florida	186,000	554,500	Ohio	101,000	301,200
Georgia	102,600	305,800	Oklahoma	43,600	130,000
Hawaii	12,900	38,400	Oregon	37,400	111,400
Idaho	20,700	61,600	Pennsylvania	99,300	296,000
Illinois	123,700	368,800	Rhode Island	8,500	25,500
Indiana	62,700	187,000	South Carolina	48,900	145,900
Iowa	25,200	75,000	South Dakota	7,400	22,000
Kansas	29,100	86,700	Tennessee	64,000	190,800
Kentucky	40,200	119,700	Texas	367,700	1,096,100
Louisiana	53,600	159,900	Utah	36,000	107,200
Maine	9,100	27,300	Vermont	4,800	14,500
Maryland	38,900	116,000	Virginia	54,500	162,600
Massachusetts	34,800	103,700	Washington	57,400	171,200
Michigan	89,100	265,600	West Virginia	19,700	58,700
Minnesota	37,400	111,600	Wisconsin	43,200	128,900
Mississippi	38,300	114,200	Wyoming	4,200	12,400
Missouri	60,500	180,300			
United States				3,148,000	9,365,000

Source: Tax Policy Center national estimate, distributed by state based on CBPP analysis of the 2005 American Community Survey

PROPERTY TAX RELIEF

30 million taxpayers: This bill would help 30 million taxpayers receive \$1.2 billion in tax relief by providing these taxpayers with a standard deduction for real estate taxes.

The provision creates a new property tax deduction for American homeowners that are suffering from high property tax bills, allowing homeowners who currently do not itemize on their Federal tax returns to take an additional standard deduction for the state and local property taxes that they pay. The maximum amount that may be claimed under this provision is \$700 for joint filers and \$350 for individuals. This proposal applies for 2008

The provisions could benefit more than 30 million homeowners who don't benefit from property tax deductions. In 2005, there were 72.3 million owner-occupied households yet only 40.5 million taxpayers claimed an itemized deduction for real estate property taxes.

The standard federal tax deduction is adjusted each year for inflation, but that adjustment does not take into account skyrocketing property values and tax increases.

This additional standard deduction would be permanently available to all Americans who owe real property taxes at the state and local level but do not itemize on their Federal returns.

This additional standard deduction would be particularly helpful to elderly homeowners who may no longer itemize in order to receive a mortgage interest deduction, but who are still subject to high property taxes.

STATE AND LOCAL SALES TAX RELIEF

11.4 million taxpayers: This bill would help 11.4 million taxpayers receive over \$2.3 billion in tax relief by extending the itemized deduction for State and local sales tax.

The deduction for State and local sales tax was part of the U.S. tax code until 1986. Prior to 1986, both State sales taxes and State income taxes were deductible as itemized deductions. As part of extensive efforts to reform our tax system, the sales tax deduction was eliminated. People in states with a State income tax were still permitted to deduct those taxes from their Federal income tax liability, but those in states without an income tax were no longer permitted to deduct their State sales taxes. The bill extends for one year the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for State and local income taxes.

There are seven states that primarily benefit from the sales tax deduction – Washington, Texas, Florida, Nevada, Tennessee, South Dakota, and Wyoming. However, the election is available to taxpayers nationwide.

The sales tax deduction was reinstated in 2004 as part of the American Jobs Creation Act. However, that deduction was a temporary deduction for 2004 and 2005. It was retroactively extended last year in the tax extenders bill for 2006 and 2007. The current deduction is set to expire at the end of this year.

Over the last two years, the sales tax deduction has resulted in billions of dollars in tax savings to millions of hardworking taxpayers throughout the United States. These tax savings have meant a boost to the economy in the affected states

The state sales tax deduction is a matter of tax fairness. As long as taxpayers have the ability to deduct their state and local income taxes, taxpayers in states without an income tax must also have an opportunity to deduct their state and local sales taxes.

TUITION TAX CREDIT

4.6 million taxpayers: This bill would help 4.6 million taxpayers with over \$2.5 billion in tax relief by extending the deduction for qualified education expenses.

The bill extends the above-the-line tax deduction for qualified education expenses for one year. For tax year 2007, the maximum deduction was \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for joint returns) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns).

Rising Tuition					
Tuition and fees for public, four-year colleges, not including room and board					
	2006-2007			2006-2007	
Alabama	\$4,915	5%	Montana	\$5,255	8%
Alaska	\$4,195	10%	Nebraska	\$5,224	6%
Arizona	\$4,676	6%	Nevada	\$3,651	9%
Arkansas	\$5,298	6%	New Hampshire	\$9,114	6%
California	\$4,560	1%	New Jersey	\$9,298	9%
Colorado	\$4,646	5%	New Mexico	\$3,985	7%
Connecticut	\$7,140	6%	New York	\$5,046	1%
Delaware	\$7,410	6%	North Carolina	\$4,063	10%
D.C.	\$3,210	27%	North Dakota	\$5,509	9%
Florida	\$3,336	4%	Ohio	\$9,357	6%
Georgia	\$3,913	6%	Oklahoma	\$4,246	11%
Hawaii	\$4,257	22%	Oregon	\$5,576	5%
Idaho	\$4,159	6%	Pennsylvania	\$9,041	5%
Illinois	\$8,133	12%	Puerto Rico	\$1,396	0%
Indiana	\$6,555	6%	Rhode Island	\$6,756	6%
Iowa	\$5,900	5%	South Carolina	\$7,916	7%
Kansas	\$5,149	11%	South Dakota	\$4,940	7%
Kentucky	\$5,758	12%	Tennessee	\$4,974	4%
Louisiana	\$3,796	4%	Texas	\$5,940	8%
Maine	\$6,583	8%	Utah	\$3,891	8%
Maryland	\$7,241	1%	Vermont	\$9,800	5%
Massachusetts	\$7,585	4%	Virginia	\$6,558	9%
Michigan	\$7,661	7%	Washington	\$5,617	7%
Minnesota	\$7,495	8%	West Virginia	\$4,152	7%
Mississippi	\$4,455	6%	Wisconsin	\$6,044	7%
Missouri	\$6,531	5%	Wyoming	\$3,515	3%
			National avg.	\$5,836	6%
Source: College Board					

R&D CREDIT

The R&D credit is available for research and development expenditures incurred in the United States. The bill would provide \$9 billion in tax relief and promote competitiveness and innovation in U.S. companies.

Companies Supporting Extension of the R&D Credit

21st Century Plastics Corporation	Eli Lilly and Company	Peak International Ltd.
360 Software Corporation	eLifeCare Enterprises, Inc.	Pearson Packaging Systems
3Com Corporation	EMC Corporation	Pegasystems Inc.
BM	EMS Technologies, Inc.	Percardia, Inc.
A. O. Smith Corporation	Emulex Corporation	Performance Technologies, Incorporated
Abbott	ENARDO, Inc.	PEVCO Systems International, Inc.
Abrasive Form Inc.	Energetiq Technology, Inc.	Pfizer Inc
Accel Partners	Enterprise Management Associates	Philips Electronics North America Corp.
ACE Clearwater Enterprises	Enuclia Semiconductor, Inc.	Pinnacle Data Systems, Inc.
ACT Teleconferencing	ESS Technology, Inc.	Pioneer Aerospace Corporation
Actel Corporation	Essex Corporation	PlayMotion!
ActivCard Corp.	Esterline Technologies Corporation	Pop Art, Inc.
Acumenta Corporation	Expandable Software, Inc.	Porta-King Building Systems
ADCO Manufacturing	EXTOL International, Inc.	Power Integrations, Inc.
Adobe Systems Inc.	Exxon Mobil Corporation	Powershift Ventures, LP
Adroit Medical Systems, Inc.	Fabri-Kal Corporation	PPG Industries
Advanced Energy Industries, Inc.	Fairchild Semiconductor	Praxair, Inc.
Advanced Micro Devices, Inc.	FCI USA, Inc.	Precision Filters, Inc.
Advanced Power Technology, Inc.	Fischer Precision Spindles	Preh Electronics, Inc.
Advanced Technology Services, Inc.	Fluke Corporation	Price Pump Company
Aeris.net	Fluke Electronics Corporation	Printronic, Inc.
Agere Systems	Ford Motor Company	Procter & Gamble
Agilent Technologies, Inc.	Fortune Brands, Inc.	Pro-Dex, Inc.
Air Products and Chemicals, Inc.	Freescale Semiconductor, Inc.	Profile Machine Products
Ajilon Consulting	Frequency Electronics, Inc.	Progress Energy, Inc.
Akron Equipment Company	Fresenius Medical Care North America	QUALCOMM Incorporated
Akzo Nobel Inc.	Frye Electronics, Inc.	Quality Engineering Services
Albemarle Corporation	Fujitsu	QuickLogic Corporation
Alcatel	Fulcrum Microsystems, Inc.	Quintron Systems, Inc.
Aldine Metal Products Corp.	GatherWorks, Inc.	Quovadx, inc.
Allure Fusion Media, Inc.	Genentech, Inc.	Radiant Medical, Inc.
ALPCO Diagnostics	General Capital Corporation	RadiSys Corporation
Altera Corporation	General Motors Corporation	Railinc, Corp.
Altria Corporate Services, Inc.	General Transformer Corp.	RAM Software Systems, Inc.
Alvaka Networks	Gheen Irrigation Works, Inc.	Raydiance, Inc.
AmberWave Systems Corp.	Glance Networks, Inc.	Raytheon Company
AMD	GlaxoSmithKline	RB Royal Industries Inc.
Amgen Inc.	Globe Manufacturing Co.	REAL Software Systems, LLC
ANDA Networks	GM Nameplate, Inc.	Regional Technology Corporation
Anteon International Corporation	Google Inc.	RF Monolithics, Inc.
Apple Computer Inc.	Guidant Corporation	RO Associates, Inc.
Applied Data Systems, Inc.	Gusmer Enterprises Inc.	Robbins & Myers, Inc.
Applied Films Corporation	Harley-Davidson Motor Company	Rockwell Collins, Inc.

Applied Materials, Inc.	Harmony Information Systems, Inc.	Rohm and Haas Company
Applied Visual Technology, Inc.	Harvard Design & Mapping Co., Inc. (HDM)	Roos Instruments, Inc.
AquaTran Products, Inc.	HealthCare Insight, LLC	RSA Security, Inc.
Arch Chemical Co.	Hewlett-Packard Company	Rudolph Technologies, Inc.
Ashland Inc.	Hexcel	S.C. Johnson and Son, Inc.
Ask Jeeves, Inc.	Hi-Rel Laboratories, Inc.	Sanderson Farms, Inc.
ASSET InterTech, Inc.	HOBSON MOTZER INC.	sanofi-aventis
AT&T Corp.	Homac Mfg. Company	SAP America, Inc.
Attachmate Corporation	Home Decor Innovations	SAS
Avaya Inc.	Honeywell	SBC Communications, Inc
Avega Health Systems, Inc.	ibis Technology	Schnipke Engraving Company Inc.
Axontologic, Inc.	Immuno-Mycologics, Inc.	Schoolhouse Software, Inc.
BAE SYSTEMS Integration and Electronic Systems Integration	Impulse Dynamics, Inc.	Schwerdtle Stamp Inc.
Barber-Nichols Inc.	ImTech, Inc.	Scientific Technologies, Inc
Barr Pharmaceuticals, Inc.	Industrial Tool Inc	Sharp Laboratories of America
BASF Corporation	Indyme Solutions, Inc.	Sharp Microelectronics of the Americas
Baxa Corporation	Infineon Technologies North America Corp.	Sierra Atlantic, Inc.
Bayer Corporation	InFocus	Signature Mold & Mfg. Co., Inc.
BCD Electro Inc	InLogic, Inc.	SIGNICAST CORPORATION
BEA Systems, Inc.	Innovative Circuits Inc.	SimpleTech, Inc.
Bead Industries, Inc.	Innovative Paper Technologies, LLC	Sirois Tool Co., Inc.
Belden Brick Company	Instrumentation Technology Systems	SKF USA Inc.
Belton Industries Inc.	Integrated Computer Solutions, Inc	Smaart Medical Systems, Inc.
Benhamou Global Ventures, LLC	Intel Corporation	Smart Software, Inc.
Bioanalytical Systems, Inc.	Intelligent Technologies, LLC	Smurfit-Stone Container
Bison Gear & Engineering Corp.	Interactive Intelligence, Inc.	Snowbound Software
Blasch Precision Ceramics, Inc.	Interdigital Communications Corporation	SolidWorks Corporation
Bluespec, Inc.	Interfuse Technology Corporation	solutions4networks
BMC Software, Inc	International Business Machines Corporation	Sonnet Technologies, Inc.
Boehringer Ingelheim Corporation	International Paper Company	Sony Corporation of America
Book Manufacturers' Institute, Inc.	Internet Security Systems	SpatialLight, Inc.
Boston Communications Group, Inc.	INTEST Corporation	Spectrum Automation Company
Boston Scientific Corporation	Intuit Inc.	SpunCast Inc.
Bristol-Myers Squibb Company	IRIS International	St. Francis Medical Technologies, Inc.
Broadcom Corporation	IRM Corporation	Startup Partners
Brooks Automation Inc.	ISX Corporation	Sternhill Partners
Brown Cargo Van, Inc.	ITECH	StorageTek
BTU International, Inc	J. C. Steele & Sons, Inc	Sturtevant, Inc.
Burford Electric Service, Inc.	Jarg Corporation	Sun Chemical Corporation
C.R. Hudgins Plating, Inc.	Jazz Semiconductor	Sun Microsystems, Inc.
Cabot Corporation	Johnson & Johnson	Sunoco Inc.
Cadence Design Systems, Inc.	Kason Industries Inc.	Sunrise Telecom
California Micro Devices Corporation	Kay Automotive Graphics	Sutphen Towers Inc.
Cambridge Publications, Inc.	Keithley Instruments, Inc.	Sybase, Inc.
Candela corporation	Kenall Manufacturing Company	Symantec Corporation
Cap & Seal Co.	Kohler Co.	Syncro Corporation
Captiva Software Corporation	La Deau Manufacturing Company, LLC	Synergex International Corporation
CARE-TECH Laboratories, Inc.	Lattice Semiconductor Corporation	Synopsys, Inc.
Carpenter Associates	Leggett & Platt, Inc.	TAEUS International Corporation
Carpenter Technology Corporation	Lexmark International, Inc.	TECHNIQUE, INC.
CASA HERRERA INC	LightSpeed Technologies, Inc.	Tegal Corporation

Cascade Microtech, Inc	Lincoln Electric Holdings, Inc.	TeleCommunication Systems, Inc.
Case New Holland Inc.	LiveVault Corporation	Telect Inc.
CEC Controls Company, Inc.	Lockheed Martin Corporation	TELESYNC, Inc.
Centra Software, Inc.	LOFA Industries, Inc	Teradyne, Inc.
Chemstar Products	LSI Logic Corporation	Texas Instruments
Cii Associates Incorporated	Lucent Technologies, Bell Labs Innovations	Textron Inc.
Cisco Systems, Inc.	Macrovision Corporation	The Boeing Company
Citrix Systems, Inc.	Madrona Venture Group	The Coeur d'Alenes Company
Clarity Visual Systems, Inc.	Maier Mfg. Inc.	The Devco Companies
Click Bond, Inc.	Manor Tool & Manufacturing Co.	The Dow Chemical Company
Coherent Inc	MapInfo Corporation	The Essmueller Company
Coil Pro Machinery, Inc.	Master Chemical Corporation	The Lee Company
CommercialWare, Inc.	Matheson Tri-Gas, Inc.	The Manitowoc Company
Compass Consulting Corp	MCAFEE TOOL AND DIE INC.	The MathWorks
Composites Horizons, Inc.	McAfee, Inc.	The Refractories Institute
Computer Sciences Corporation	McDATA Corporation	The Timken Company
Conexant Systems Inc.	Meadows Mills Inc	The Valv-Trol Co.
CONSOL Energy, Inc.	Medtronic	Thermal Designs Inc.
Constant Contact	Merck & Co., Inc	Thomas G. Faria Corporation
Cooper Tire & Rubber Company	Mercury Computer Systems, Inc.	Three Rivers Aluminum Company
Crane Aerospace & Electronics, STC Microwave Systems	MI Technologies	TimeVision
Cree, Inc.	Micro Encoder Inc.	Tone Commander Systems, Inc.
Cummins-Allison Corporation	Micron Technology, Inc.	TOSOH Quartz, Inc.
Cummins Inc.	MicroPower Electronics, Inc.	TransAct Technologies Incorporated
Custom Fab Solutions LLC	Microsoft Corporation	Transportation Costing Group
Cymer, Inc.	Mobility Electronics, Inc.	Twin Rivers Technologies L.P. and Affiliates
DaimlerChrysler Corporation	Modine Manufacturing Company	UltraDots, Inc.
Data I/O Corporation	Moretz Technologies, LLC	UMD Technology, Inc.
Datamatic, Ltd.	MTC Technologies, Inc.	Unisys Corporation
Dean Foods Company	Mydea Technologies Corporation	United Metal Receptacle Corp
DeepNines Technologies	Nalco Company	United Technologies Corporation
Deere & Company	Napersoft, Inc.	USinternetworking, Inc.
Dell Inc.	National Gypsum Company	Veeco Instruments Inc.
Delphi Corporation	National Semiconductor Corporation	VeriSign, Inc.
Dewey Square Group	NavCom Defense Electronics, Inc.	Verizon
Digimarc Corporation	NCR Corp.	Vermeer Manufacturing Co.
Digital Village Associates	Neasi Weber International	ViaSat, Inc.
Dixie Industrial Finishing Company, Inc.	Network Telephone Services Inc	Virage Logic Corporation
Dow Corning Corporation	Neuronetics, Inc.	VisualCalc, Inc.
Download Electronics, Inc.	Newport Corporation	W.L. Gore & Associates
Drew Industries Incorporated	NOKIA	WAN/LAN Solutions, Inc.
DuPont	Nordic Group of Companies, Ltd.	WebCT Inc.
Duraswitch	Northrop Grumman	Websense, Inc
Dynatronics Corporation	Nova Biomedical	Wescor
E.E. Ventures, Inc.	Novell, Inc.	Western Digital Corporation
Eastman Chemical Company	NOW Wireless, LLC	Williams-Pyro, Inc.
Eaton Corporation	NSK Wireless, LLC	Wisconsin Aluminum Foundry Company, Inc.
eBay, Inc.	Nu-Wool Co., Inc.	Wyeth
Ecolab Inc.	Open Security Solutions, LLC	Xerox Corporation
Edgewater Technology Inc.	Oracle Corporation	Xilinx, Inc.
EDS	OraMetrix, Inc.	Xyron Corporation
Edward Hearst	Pacific Bioscience Laboratories, Inc.	You Software, Inc.

eeParts, Inc.

EFCO Corporation

Elan Technology, inc.

Electric-Flex Company

Electronic Arts

PacketHop, Inc.

palmOne, Inc.

Palomar Technologies, Inc.

Panasonic Corporation of North
America

Paradigm Labs, Inc.

Zetara Corporation

Zippo Manufacturing Co., Inc.

Zoran Corporation

Zygo Corporation

Zyvex Corporation

Carried Interest: Myths vs. Facts

The Temporary Tax Relief Act of 2007, H.R. 3996, includes a provision to treat the “carried interest” received by investment fund managers as ordinary income rather than capital gains. In exchange for managing their investors’ assets, fund managers often they receive a portion of the fund’s profits, or carried interest, usually 20 percent. H.R. 3996 clarifies that this income is compensation for services rather than investment income and is subject to ordinary income tax rates rather than the much lower capital gains rate.

Myth: This is a tax increase on investment that will hurt economic growth.

Fact: Investors are not affected by this legislation at all.

Any person or institution who invests money in a fund whose managers receive a carried interest will continue to pay the capital gains rate on their profits. In fact, H.R. 3996 explicitly protects the investments that fund managers make themselves. To the extent they have put their own money in the fund, managers still get capital gains treatment, but to the extent they are being compensated for managing the fund, they will have to pay ordinary income tax rates like other service providers. Since investors are not affected, there is no reason to believe that the amount of capital available for these kinds of investments will be reduced at all.

Myth: Taxing carried interest is just about raising revenue.

Fact: Fairness requires treating all taxpayers who provide services the same.

The Carried Interest provision in H.R. 3996 is not just an offset. Congress has a responsibility ensure that our tax code is fair, that it makes sense. A broad spectrum of experts, including the Chairman of the Cato Institute and senior economic advisors to the last three Republican Presidents, agree that carried interest really represents a performance based fee that investors are paying to fund managers and that it should be taxed accordingly. Allowing some service providers to pay the 15 percent capital gains rate on their income when everyone else has to pay up to 35 percent risks undermining people’s confidence in our voluntary tax system.

Myth: Fund Managers are just like entrepreneurs who get founder’s stock in their company, so they too should be taxed at the capital gains rate.

Fact: Fund Managers are in a fundamentally different situation than the founder of a company.

When someone starts an enterprise, he or she actually owns that business. Sometimes that business becomes enormously valuable, but quite often it fails altogether and the entrepreneur loses her business. When an investment partnership purchases an asset, be it a stake in a small start-up company, a large corporation that wants to go private, a portfolio of securities, or a piece of real estate, the partnership does truly own those assets. The general partner or fund manager though is really only an “owner” to the extent he or she has contributed capital to the partnership. The carried interest the general partner receives for managing the fund’s assets is a right to a portion of the fund’s profit, not to the fund’s actual assets: the manager has no downside risk. If the fund fails completely and all of the partnership’s assets are lost, the limited partners have lost their money. The manager has lost the time and energy he has put into the running the fund, and the potential to share in the profits, but he is not actually out of pocket.

Myth: Fund managers deserve capital gains treatment because a carried interest is risky.

Fact: Many other forms of compensation are risky, and they are all ordinary income.

When a company gives its CEO stock options, it is trying to give her an incentive to increase the company's share price, to grow the value of shareholders' investment. If the CEO does a good job and the share price goes up, she pays ordinary income tax rates when she exercises those options. Real estate agents only make money if they actually sell a house, no matter how hard they work. Authors receive a portion of their book's profits. Waiters get tips based on the quality of the service they provide. All of these people pay ordinary income tax rates on their compensation. Only private equity and other fund managers get to pay capital gains rates on their compensation.

Myth: Taxing carried interest will hurt the pension funds that invest in these funds.

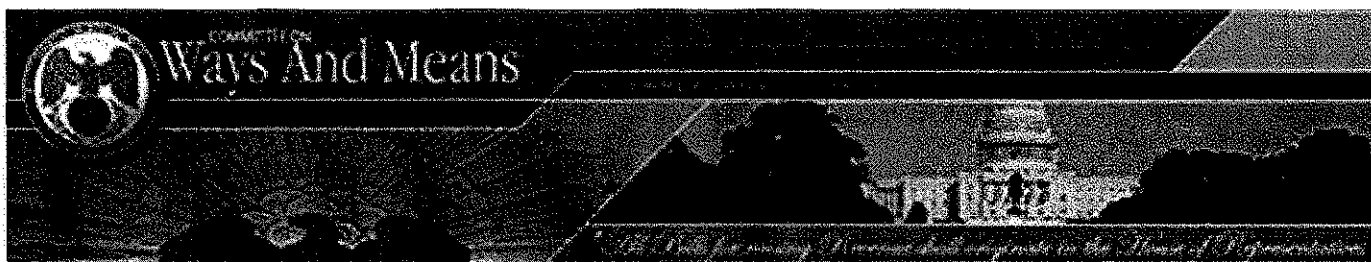
Fact: This has nothing to do with pension funds and their returns will not be affected.

One pension trustee, who also happens to be a hedge fund manager, called the idea that this debate is about workers' pensions "ludicrous." As tax-exempt investors, pension funds certainly will not be affected directly, and the assumption that fund managers can charge higher fees than they do today as a result of their having to pay ordinary income rates is extremely questionable. In fact, an attorney representing the hedge fund industry testified before the Ways & Means Committee that investors would be unlikely to accept increased fees. The National Conference on Public Employee Retirement Systems has said that its members do not believe this legislation will affect them.

Myth: This change to the taxation of carried interest will harm every "mom and pop" partnership in America.

Fact: The change would only affect those partnerships where service income is being improperly converted to capital gains.

The carried interest provisions of H.R. 3996 would have no effect whatsoever on the vast majority of partnerships that are engaged in ongoing businesses and whose profits are already being properly taxed at ordinary income tax rates. It does apply to investment fund partnerships where the investors in the fund choose to compensate the people managing their assets through a carried interest. In practice, this means hedge funds, private equity funds, venture capital funds and real estate partnerships. The reality is that the fund managers and general partners who would be asked to pay ordinary income tax rates on their compensation are a very small, very well-paid group of professionals. The Joint Committee on Taxation estimates that less than [50,000] taxpayers nationwide would be affected, and that between them these individuals will earn about [\$130 billion] over the next ten years. It is also important to note that H.R. 3996 does not discriminate among partnerships based on the kind of assets they purchase.



What People are Saying about Carried Interest and Tax Equity

IN THEIR OWN WORDS...

“To be clear, I hold no brief against the kings of private equity. Their clients are consenting adults who sign up with full knowledge of the lush fees that private equity managers receive. Some of these managers may even earn their rich rewards. My question is simply this: Why shouldn’t they pay taxes like the rest of us? It’s true that carry is mostly derived from gains on capital — but it’s mostly *someone else’s* capital. Which is presumably why former Treasury Secretary Robert E. Rubin said at a conference last month, “I think what they’re doing is getting paid a fee for running other people’s money.” Sounds right to me. This judgment does not dispute the fact that fund managers’ compensation is risky. But so are the incomes of movie actors, the royalties of authors and the prize winnings of golfers — none of which is treated as capital gains.” — **Alan Blinder, Princeton Economics Professor**

“Whether it makes sense to tax the output of expertise and hard work at more than twice the rate of investment returns is debatable. But, for better or worse, that’s the way it is. Except, that is, when it isn’t. Owners of companies, ranging from small real estate partnerships to multibillion dollar hedge funds and private equity firms, have devised a way to erase this distinction. Their managers pay 15% on their income by dressing it up as investment returns — even though they bear no investment risk or put none of their own money in play. Nice work if you can get it. But in this case it constitutes a frontal assault on fairness. Why should such people pay only 15% when senior corporate executives pay 35% for making many of the same types of business decisions? More to the point, it’s hard to see the logic (or the justice) in a school teacher or bus driver with taxable annual family income as low as \$63,700 paying 25% when someone like Blackstone Group CEO Stephen Schwarzman can make nearly \$700 million on the day his firm went public and pay at most 15%.” — **USA Today**

“Deferred compensation, even risky compensation, is still compensation, and it should be taxed as such... The Administration is on the wrong side of the issue [if it opposes the congressional legislation, which] does not seem excessive... When I wrote my book, that was sweat equity... [I oppose] different levels of taxation on different types of compensation.” — **Gregory Mankiw, Harvard Economics Professor and Former Chairman of President Bush’s Council of Economic Advisors**

“[T]he underlying question is whether the funds’ managers are receiving income from an investment they have made, or a payment that is, in all but name, a performance-related fee... Much the larger part of what they typically receive is exactly akin to a performance-related bonus, not a reward for capital put at risk. To treat it otherwise for tax purposes is a gross distortion. Efforts are doubtless under way in other industries to disguise management fees as carried interest. Correcting this anomaly might be done in different ways... The simplest approach, and most likely the best, would be to set the question of deferral aside, and tax carried interest as ordinary income on realisation. To emphasise, this would not be to single out private equity or hedge fund

managers as deserving of a new or specially punitive regime. It is a matter of even-handedly applying the logic of the present code.” - *The Financial Times*

“[The share of investment profits are] basically fees for managing other people’s money.” - *William Niskanen, Chairman of the Cato Institute & Former Member of President Reagan’s Council of Economic Advisors*

“We believe that we are engaged primarily in the business of providing asset management and financial advisory services and not in the business of investing, reinvesting or trading in securities... We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services.” - *Blackstone Group, in an SEC Filing Associated with its IPO*

“If you’re in the luckiest 1% of humanity, you owe it to the rest of humanity to think about the other 99%.... If you run a partnership and you have capital gains, you have a 15% tax rate; and if you run a corporation and have capital gains, you have a 35% tax rate. When both entities are operating in a similar manner with many thousands of shareholders, freely tradable shares, people managing them who are attempting to evaluate investments, it seems a bit illogical to have that sort of a spread in the tax rate just depending on form.” - *Investor Warren Buffett*

“...[I]t seems to me that what is happening is that people who run a large fund are basically performing a service and the service is running the capital and as a consequence they get paid a fee in the form of a performance fee. You can characterize it as a performance fee, you can characterize it as a carried interest, you can characterize it any way you want, but basically I think what they're doing is getting paid a fee for running other people's money and if that is essentially what's happening, while you can certainly create all kinds of analogies that are complicated and if I were arguing against this I think I would try to develop a lot of complicated analogies and use that as my way of trying to prevent something from happening, I think at the core there is a very good argument to be made for treating this as ordinary income.” - *Former Treasury Secretary Robert Rubin*

“I think it’s its odd that people making that much money off of essentially labor income should be paying lower rates than, than the average... than their secretaries are, to put it baldly. I think it’s good that you are considering doing it. I think you have to be careful not to trap others in doing it. I think you are also on the right track when you’re thinking about whether publicly traded partnerships ought to be taxed as corporations, since the corporations they are competing with are certainly paying tax at the corporate level, and there’s some actual money in some of those areas.” - *Michael Graetz, Former Deputy Under Secretary for Tax Policy under President George H.W. Bush, Yale Law Professor*

“...[T]he bills’ supporters rightly conclude that it is untenable for the most highly paid Americans to enjoy tax rates that are lower than those of all but the lowest-income workers. Fairness is not the only reason to change the rules. The private equity industry is on shaky ground when it claims that current practice is a correct application of the law. Many of the firms’ partners are not investing their own money in the various funds and ventures, and so have no direct risk of loss, the general test for claiming capital-gains treatment on one’s earnings.... They’re actively managing assets, and should be taxed accordingly as managers earning compensation... Congress will achieve a significant victory, for fairness and for fiscal responsibility, if it ends the breaks that are skewing the tax code in favor of the most advantaged Americans.” - *The New York Times*

“We can’t allow the carried interest tail to wag the capital gains dog.... Contrary to the claims of some press reports, lobbyists, and politicians, our inquiry, and any proposal that it may produce, is not about raising taxes on capital income. It is not an attack on the investor class. It is about the definition of capital income versus

labor income... I make this point to some Republicans and some Democrats who may have come down on this issue on opposite sides before they even know the facts.” - **Senator Charles Grassley**

“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**

“It really isn't all that hard to decide how to properly tax carried interest. Is [it] income which a money manager earns on his or her personal investments, or, instead, is it the performance fee earned for managing other people's investments? If carried interest is personal investment income, then it is properly entitled to capital gains treatment – however, if it is a performance fee, as my 20 years of first-hand experience clearly tells me it is, then it should be taxed as ordinary income... Congress is not considering changing the tax rates on the investments made by investors. Congress is only considering restoring fairness in how the men and women who manage these investments are individually taxed compared to other managers and to regular workers. And it is beyond disingenuous to predict dire unintended consequences when no consequences at all will occur. A tax loophole the size of a Mack truck is right now generating unwarranted and unfair windfalls to a privileged group of money managers, and, to no one's surprise, these individuals are driving right through this \$12 billion-a-year hole.” – **Leo Hindery, Private Equity Fund Manager**

“[The current treatment of carried interest is] a policy mistake: It was earned by the work of promoters [in the private equity industry] and it should be taxed as compensation.”- **John Chapoton, Former Assistant Treasury Secretary for Tax Policy Under President Reagan**

“Both the management fee and the carried interest represent compensation for the work that we do... Our management fee is taxed as ordinary income. However, the carried interest, even though it is compensation, is primarily taxed at capital gains rates. I can understand why many in my industry want to preserve this special tax advantage. Clearly, it has served US and ME well. The tax subsidy each year to private equity fund, hedge fund, and venture capital fund managers is in the *billions* of dollars. But I think this special tax break is neither fair nor equitable. Many Americans invest sweat equity in their jobs and their businesses, take risks, contribute to the economy, and may have to wait a long time before their hard works pays off. But they still pay ordinary income tax rates on their compensation. To the extent we take risk, we take it with other people's money.” – **William Stanfill, Venture Capital Fund Manager**

“I think sitting here is very hard to predict whether private equity or hedge funds managers, general partners, if they were faced with higher taxation, would believe that the response should be increasing the 2 & 20... It is simply too hard for me to predict that. I think that at some point there is a level of resistance on the part of investors and I think that tax-exempt institutions in particular who have a lot of leverage, to use the often cited word today, would probably not be happy paying significantly higher fees, so the result might well be, even though the managers would say ‘well look we're paying much higher taxes we need to generate more fees,’ that that cost would really be picked up by the managers and by the general partners of private equity funds.” – **Attorney Daniel Shapiro, on behalf of the Managed Funds Association**

“I don't think there's an argument on the equality side for the current tax treatment.” - **Irwin M. Stelzer, Hudson Institute Director of Economic Policy**

“Most economists, however, would view at least part and perhaps all of the carried interest as performance-based compensation for management services provided by the general partner rather than a return on financial capital invested by that partner. That perspective would suggest taxing at least some component of the carried interest as ordinary income, as most other performance-based compensation is currently treated, regardless of the nature of the underlying investments generating the profits of the fund.” – **Peter Orzag, Director, Congressional Budget Office**

“It's not exactly straight salary, but none of this income comes from [a hedge fund manager] putting his own wealth at risk. Except for the fact that he might make a billion dollars a year, he resembles a waitress whose income depends on a mix of wages and tips, or a salesman who lives on a mix of salary and commissions, more than he resembles an entrepreneur who sinks his life savings into a new business. So why does he get the same tax breaks as that entrepreneur? Not to put too fine a point on it, why does Henry Kravis pay a lower tax rate on his management fees than I pay on my book royalties?” - **Paul Krugman, Princeton University Economics Professor**

“The argument that this is about the interests of retired public employees is ludicrous.” - **Orin Kramer, Hedge-Fund Manager and Chairman of the New Jersey State Investment Council**

“Suggesting that changing the tax status on carried interest would lead to public-sector pensions being jeopardized is taking a pretty extreme view of their importance.” – **Michael Musuraca, Trustee, New York City Employees Retirement System**

Editorials Supporting Closing Private Equity/Carried Interest Loophole as Matter of Fairness

Washington Post Editorial

Private-Equity Tax Breaks, a Call to Be Up in Arms

Sunday, September 9, 2007; F03

Even by Washington standards, the private-equity industry certainly went over the top in conjuring up the economic woes that would befall the United States if their cherished tax breaks were taken away.

Pensioners would be destitute. Wall Street would pack up and move to Dubai. The hedge fund industry would disappear. Federal revenue would plummet. Entrepreneurial risk-taking would grind to a halt. And the urban underclass would slip even deeper into poverty.

And all that just because some of the richest people in the world would have to pay the same 35 percent tax rate on their income as dentists, lawyers and baseball players.

There is no mystery as to why the industry bothers to make these ridiculous and contradictory arguments -- billions of dollars in tax windfalls are at stake.

The only mystery is why Senate Democrats don't have the good sense to grab onto this as their centerpiece domestic issue as they head into the 2008 campaign. It's hard to think of an issue that better taps into the public anxiety about the markets and the economy, the anger about income inequality, or the disgust with a political system that bends to the will of powerful interests. And if Republicans go through with their threats of a filibuster and a presidential veto, Democrats ought to put aside all other business and call their bluff.

This is a make-or-break issue for Democrats. If they can't unite around this issue, then they aren't real Democrats and they don't deserve to govern.

Washington Post Editorial

Equity for Private Equity; Legislation to raise taxes on fund managers' income

13 July 2007; A16

INVESTMENT partnership funds can be enormously profitable, highly secretive and lightly regulated. People tend to get suspicious.

As a result, government bodies periodically try to tamper with private equity firms, hedge funds, venture capital firms and the like. This largely unregulated industry does a lot to stabilize America's financial system by fostering innovation and bringing inefficient or undervalued markets closer to equilibrium,

and most of these attempts to regulate or reconfigure the industry would be bad for the U.S. economy. But this time around Congress has proposed legislation that makes sense.

A House bill would set a higher tax rate for "carried interest," the cut of profits typically awarded to fund managers at private equity firms and other investment partnerships. In these investment partnerships, a fund manager typically manages the investment made by himself and various limited partners, with the manager usually contributing about 1 percent of the investment. The fund manager then usually receives 2 percent of the assets he manages annually and 20 percent of the profits earned on the investment when it is sold. Even though this 20 percent cut makes up the bulk of the manager's compensation, and even though it is awarded for managing others' money, under current tax law this income is treated as capital gains rather than ordinary income. As a result, fund managers who make zillion-digit incomes from carried interest can be taxed at the same rate (15 percent) as a part-time janitor.

The House bill, sponsored by Sander M. Levin (D-Mich.), Ways and Means Committee Chairman Charles B. Rangel (D-N.Y.), Financial Services Committee Chairman Barney Frank (D-Mass.) and 13 other Democrats, would close this loophole for fund managers and treat their "carried interest" earnings as regular income taxable at the ordinary 35 percent top-income rate that high-earning employees in other industries must pay. 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.

A Senate bill that also attempts to bring equity to the private equity industry would force investment partnerships that are publicly traded -- right now, only a handful -- to pay corporate income taxes. Support for the Senate bill has gained some momentum because of Blackstone Group's splashy initial public offering, one of the largest in history. The Senate's corporation-rather-than-manager-based solution seems less effective, however, because companies can easily move overseas (as many have already done), while individuals are less likely to do so. Investment partnerships can also simply choose not to go public.

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, and they're paid management fees during the duration of their partnerships, so they have steady incomes. 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.

New York Times Editorial

Raising Taxes on Private Equity

June 25, 2007

So much for the argument often made by managers of hedge funds and mavens of private equity that higher taxes would cripple their business.

The prospect of higher taxes did not dent, in the least, the initial public offering on Friday of the Blackstone Group, the giant private equity firm. The week before, a bill was introduced in the Senate to

raise taxes on private equity firms that go public. On the day of the offering, a House bill was introduced that would raise their taxes, whether they're publicly traded or not.

And yet, Blackstone had a debut that was one of Wall Street's biggest, its thunder muted only by the announcement by its longtime rival, Kohlberg Kravis Roberts, that it, too, planned to go public.

The bills in Congress take aim at a provision of the tax law that has allowed private equity and hedge fund operators to pay a lower capital-gains tax rate of 15 percent, instead of the ordinary top income-tax rate of 35 percent, on the performance fees that make up the bulk of their huge paychecks.

With income inequality surging along with the need for tax revenue, the bills' supporters rightly conclude that it is untenable for the most highly paid Americans to enjoy tax rates that are lower than those of all but the lowest-income workers.

Fairness is not the only reason to change the rules. The private equity industry is on shaky ground when it claims that current practice is a correct application of the law.

Many of the firms' partners are not investing their own money in the various funds and ventures, and so have no direct risk of loss, the general test for claiming capital-gains treatment on one's earnings. Moreover, the tax rules in question were developed decades ago for enterprises that had passive investors to whom gains were passed along. Hedge fund managers and private equity partners are not passive. They're actively managing assets, and should be taxed accordingly as managers earning compensation.

The challenge now is to develop a single bill that can withstand the formidable lobbying efforts of the private equity industry to water it down.

To do so, the final bill should clearly apply to other firms where partners may also receive most of their pay as capital gains, such as oil and gas partnerships. It will also be necessary to narrow the bill, where appropriate. For instance, it could include a mechanism to allow some compensation to be taken in a form similar to incentive stock options.

Congress will achieve a significant victory, for fairness and for fiscal responsibility, if it ends the breaks that are skewing the tax code in favor of the most advantaged Americans.

USA TODAY Editorial

Wealth money managers make more, get taxed less

July 23, 2007 Monday; Pg. 10A

As many business executives, doctors, lawyers and other skilled professional know, the top income tax rate is 35%. The top rate on dividends and long-term capital gains is 15%.

Whether it makes sense to tax the output of expertise and hard work at more than twice the rate of investment returns is debatable. But, for better or worse, that's the way it is.

Except, that is, when it isn't. Owners of companies, ranging from small real estate partnerships to multibillion dollar hedge funds and private equity firms, have devised a way to erase this distinction. Their managers pay 15% on their income by dressing it up as investment returns -- even though they bear no investment risk or put none of their own money in play.

Nice work if you can get it. But in this case it constitutes a frontal assault on fairness. Why should such people pay only 15% when senior corporate executives pay 35% for making many of the same types of business decisions? More to the point, it's hard to see the logic (or the justice) in a school teacher or bus driver with taxable annual family income as low as \$63,700 paying 25% when someone like Blackstone Group CEO Stephen Schwarzman can make nearly \$700 million on the day his firm went public and pay at most 15%.

Congress is rightfully re-examining the issue. Reps. Sandy Levin, D-Mich., and Charles Rangel, D-N.Y., have a proposal. In the Senate, Max Baucus, D-Mont., and Chuck Grassley, R-Iowa, have a useful, if narrower, bill.

The practice they are seeking to ban or limit is a transparent ruse. Here's how it works using the example of a private equity firm: The partners raise capital from banks, pension funds and other large investors, which they use to buy companies and resell them. Their investors give them some direct compensation, which is taxable as income.

But most of the compensation comes in the form of an investment vehicle known as "carried interest," which gives them a right to a portion of the profits they generate (typically 20%). That portion of the profit is taxed 15%, just as if they supplied 20% of the capital at the outset.

It's a creative practice, but with a result that says the rich get to write their own rules. That's not a new problem in the American tax system, but it is nevertheless repulsive. Income is income, or so you'd think.

Supporters of this scam argue that these money managers actually are risking their own investments. It's just not money, in their case, but their "sweat equity," their time, their expertise. But the same could be said of the lawyer who takes a case on a contingency fee, the movie actor who negotiates a cut of the box office receipts, the financier who chooses to work for a firm known for paying enormous bonuses during good years. In most, if not all, of such cases, these people pay income taxes.

And so should partners in these exotic investment firms. More so because the tax they avoid paying is money that has to be made up by people of lesser means -- or borrowed from later generations by adding to the budget deficit.

These schemes add insult to injury at a time of increasing wealth concentration. It is time to end them.

Philadelphia Inquirer Editorial

Equity Managers' Loophole; Billion-dollar breaks

September 19, 2007 Wednesday; Pg. A16

For years, a relatively few players in the corporate takeover game have benefitted from a tax loophole that costs the federal government billions annually.

Now a push is under way in Congress to tax these wealthy managers of private equity funds at the same income-tax rates as everyone else. Congress should end this unfairness in the tax code.

Most workers pay income taxes on a graduated scale, with marginal tax rates running from a low of 10 percent, to a high of 35 percent for the wealthiest wage earners. But managers of private equity funds, who usually do extremely well for themselves, pay only a capital gains tax rate of 15 percent on most of their income. That's because the tax code considers their wages "carried interest," even though this compensation can run into hundreds of millions of dollars per individual. The preferential treatment can be worth millions of dollars to such a manager.

Rather than being taxed on compensation for services rendered, these managers are taxed as though they had invested a 20-percent stake in the fund. But, even though they sometimes gain equity stakes in the companies they buy and manage, they don't have capital at risk in the ventures. They're really being compensated for their expertise and effort.

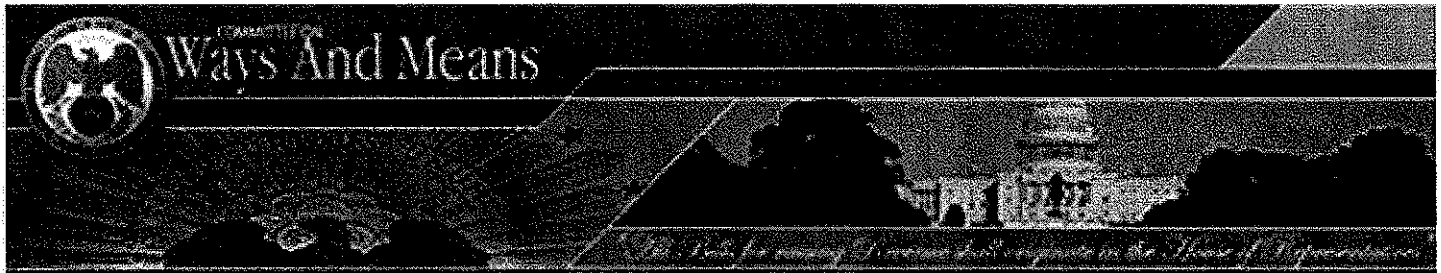
This definitional fiddle creates a class of service provider that is taxed a preferential rate. Economist Greg Mankiw, former chair of the Council of Economic Advisers under President Bush, has said that carried interest should be taxed at the same rate as other compensation for such services. As it stands now, an executive in a financial-services firm is taxed differently from the manager of a private equity or a hedge fund.

There's no good reason why a person earning \$200 million per year should pay a lower tax rate than a single worker earning \$45,000 annually and paying 20 percent in taxes.

The loophole costs the Treasury several billions of dollars per year. The sum is small compared with the overall federal budget. But in a budget season in which Congress and the president are feuding over a difference of about \$22 billion, such sums do matter.

Some argue that taxing these fund managers at a higher rate would harm ordinary investors, such as those enrolled in state employee pension plans, because the fund managers would demand higher compensation. But the evidence is slim. The liberal Center on Budget and Policy Priorities, a nonprofit think tank in Washington, said the impact on investors would be "quite small."

And this glaring inequity shouldn't be preserved on the presumption that a tiny fraction of it will trickle down to the folks already paying their fair share.



The Honorable Charles B. Rangel, Chairman

FOR IMMEDIATE RELEASE

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November 1, 2007

Ways And Means Passes Responsible Tax Relief Bill

Bill would keep AMT from hitting 23 million families, extend expiring provisions

WASHINGTON – The House Committee on Ways and Means today voted 22-13 in favor of a fiscally responsible tax package to prevent more than 23 million families from a tax increase under the alternative minimum tax (AMT). The bill, H.R. 3996, the *Temporary Tax Relief Act of 2007*, would ensure that no additional taxpayers pay the AMT this year while also extending popular tax credits and deductions that expire at the end of the year. This must-pass tax relief is fully offset by closing loopholes and eliminating narrowly targeted tax benefits enjoyed by a privileged few. H.R. 3996 is expected to be considered by the full House next week.

“This legislation provides responsible tax relief for families across America without adding to the Federal deficit,” said Chairman Rangel. “The *Temporary Tax Relief Act of 2007* keeps 23 million families from getting hit with a tax increase from the AMT through no fault of their own. Provisions in this bill would put money back into the pockets of working families through an expanded child tax credit, extensions of deductions for property and State and local sales taxes, as well as tuition payments.

“Many of the provisions in this bill would extend current law, but the legislation is a break from the status quo of out-of-control borrowing put forward by the Bush Administration and previous Congresses. It is astounding that Senate Republicans have threatened to filibuster this package because they wish to continue funding tax relief at the expense of future generations. Their reckless behavior should not stand in the way of tax relief for 23 million Americans.”

Senate Republicans have indicated that temporary AMT relief should not be offset, thereby adding to the Federal deficit. They have threatened to filibuster a revenue-neutral tax package, preventing this must-pass bill from reaching the President’s desk for signature.

“This Democratic Congress believes that, when we provide tax relief, we should not borrow the money to pay for it from Japan and China. Being responsible is difficult, but necessary. To ensure this relief is not financed through more reckless borrowing, we close loopholes and end unfair advantages for a few taxpayers. This should not be a partisan issue. If people believe they are treated unfairly under this bill, let them come forward and justify to the American people the tax preference they have enjoyed for decades and we’ll take another look at it.”

H.R. 3996 contains provisions to change the tax treatment of “carried interest” for investment fund managers. Under the Committee-passed legislation, they will no longer receive a lower capital gains rate of 15% for what is essentially a management fee or payment for services. Partners and managers would continue to receive a lower rate of taxation on returns derived from money they have personally invested.

The Committee began looking at this issue in the context of fairness and equity in the tax code and found no evidence to conclude that these partners or fund managers should receive preferential treatment for the same services provided by other corporate professionals doing the same jobs. The provision changing the tax treatment of carried interest has received broad public support, including several editorials in leading national newspapers advocating for the change.

“For those who do not yet know what the AMT is, let me assure you, 23 million Americans do and they are waiting to know that Congress did the responsible thing and kept them from paying higher taxes.”

Click here to view a [summary of the legislation](#), including a complete list of expiring provisions that would be extended under Chairman Rangel’s bill.

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