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Floor Statement of Senator Chuck Grassley
Alternative Minimum Tax Problem for 2007
Delivered Wednesday, April 18, 2007

Mr. President, yesterday was tax return filing day for most Americans for the 2006 tax year. While filing that 2006 tax return and paying tax owed for 2006 was stressful enough, for the 23 million families that will be AMT taxpayers in 2007 there was added stress.

That added stress is due to the fact that those 23 million families bear the uncertainty of whether or not there will be an AMT patch for 2007. This matters for AMT taxpayers now because first quarter estimated tax payments are due for the 2007 tax year. Here's a chart that shows the form for the payment these 23 million families have to make.

Barring an extension in the hold harmless contained in the 2006 tax bill, AMT exemptions will return to their pre-2001 levels. Many Americans may be surprised to find in their 1040-ES instruction packet that the AMT exemption amount for single taxpayers is decreasing from \$42,500 in 2006 to \$33,750 in 2007 and for married taxpayers the exemption amount is decreasing by nearly \$20,000 (from \$62,550 to \$45,000).

To add insult to injury in the whole matter, certain credits will not be allowed against the AMT in 2007, including the credit for child and dependent care expenses, credit for the elderly or the disabled, and education credits, just to name a few.

The AMT is not a new problem and has been with us for several decades. The individual minimum tax, the precursor to our AMT, was originally enacted in 1969 after Congress discovered that 155 taxpayers with incomes greater than \$200,000 were not paying any taxes at all. As originally formulated the individual minimum tax affected 1 in 500,000 taxpayers. Clearly the situation has changed dramatically in the last 38 years.

Though not its only flaw, the AMT's most significant defect is that it is not indexed for inflation. This failure to index the exemption and rate brackets, the parameters of the AMT system, is also a bipartisan problem. Perhaps the most notable missed opportunity to index the AMT for inflation was the passage of the Tax Reform Act of 1986.

Another missed opportunity was the Omnibus Budget Reconciliation Act of 1993 in which the exemption level was increased to \$33,750 for individuals and \$45,000 for joint returns, but this was accompanied by an additional rate increase. By the way, the 1993 tax increase passed with only Democratic votes. Once again, graduated rates were introduced, except this time they were 26 percent and 28 percent.

By tinkering with the rate and exemption level of the AMT, these bills were only doing what Congress has been doing on a bipartisan basis for almost 40 years, which is to undertake a wholly inadequate approach to a problem that kept getting bigger.

In 1999 the issue again had to be dealt with. The Congress passed the Taxpayer Refund and Relief Act of 1999. In the Senate, only Republicans voted for the bill. That bill included a provision to repeal the AMT. President Clinton vetoed the bill. Later on in 1999, an extenders bill including a fix good through 2001 was enacted to hold the AMT back for a little longer.

Most recently, in March of 2007, less than a month ago, this body, led by Democrats, voted against an amendment I sponsored to put some honesty back in the budgeting process and to stop spending amounts that are scheduled to come into the federal coffers through the AMT.

Let me take a minute to talk about that vote on my amendment to the budget resolution. That amendment would have amended the budget resolution for fiscal year 2008 in order to accommodate the full repeal of the Alternative Minimum Tax, preventing the same 23 million families and individuals that I'm talking about today from being subject to the AMT in 2007 (not to mention the millions of families and individuals in subsequent years).

Now you would think that we would have seen a flood of bipartisan support for that amendment, given the number of families represented by my colleagues across the aisle who are now paying the AMT in 2007. But instead, true to form, not a single Democratic Senator voted for the amendment to provide relief from the AMT and to stop spending money that this country does not have. Not a single one.

So, even though the AMT is a problem that has been developing for a while—almost 40 years—Congress has had an opportunity to deal with the issue but has blocked attempts to deal with the issue thoroughly, although on numerous occasions Congress has made adjustments to the exemptions and rates it has not engaged in a sustained effort to keep the AMT from further absorbing our nation's middle class.

Despite temporary measures, this week the AMT has gone from being a *threat* to millions of taxpayers who were never supposed to be subject to a minimum tax to being a *reality* when they sent in those estimated tax payments to the IRS. That the AMT has grown grossly beyond its original purpose, which was to ensure that the wealthy were not exempt from an income tax, is indisputable, and that the AMT is inherently flawed would seem to be common sense.

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

billion into the Treasury.

Projections show the AMT ballooning revenues in the coming years. These projections are used to put together the budget. This is a bipartisan problem by the way. Republican and Democratic budgets rely on the same source of revenue. This means that the central problem in dealing with the AMT is money.

There are some people who say we can only solve the AMT if offsetting revenue can be found to replace the money that the AMT is currently forecast to collect. Anyone who says this sees the forecasts showing revenues being pushed up as a percentage of GDP and wants to keep them there. These arguments are especially ridiculous when one considers that the AMT was never meant to collect so much revenue – it is a failed policy in many ways.

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

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

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

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

I've outlined that the AMT problem has been developing for decades but I want to make clear that something distinctly different and more ominous is happening this year for AMT taxpayers. That is that for the first time in six years there is no money in the budget to patch the AMT. For the first time in 6 years there is no bill on the floor to deal with the issue. There is a Baucus-Grassley repeal bill but I don't think the Democratic Leadership has put it on the schedule.

At estimated tax payment time last year, folks were feeling a similar crunch on the AMT but the legislative posture on this point was significantly different. This time last year an AMT patch bill for 2006 had passed in both the House and the Senate. This time last year the tax-writing committees were in conference on a tax package that included a patch to the AMT for 2006 and was enacted in May of 2006. This year those 23 million families that are facing a 2007 estimated tax payment have nothing to refer to but the IRS instruction packet that is telling them that it is time to start paying on

the 2007 AMT problem now.

It is time for Congress to wake up to this problem. It cannot wait until the end of this year. It cannot wait until after the next Presidential election. The time is now. I implore my colleagues to join with me to address this issue now – perhaps the 23 million families that are feeling the Absolutely Maddening Tax Increase of 2007 beginning this week will inspire this body to act.