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Floor Statement of U.S. Senator Chuck Grassley of Iowa
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The Alternative Minimum Tax

Mr. President, I stand before you to continue the discussion on the Alternative Minimum Tax, or AMT, that I started earlier this week. As I pointed out, it is generally recognized that the AMT is a policy failure. Created in 1969 in response to the discovery that 155 wealthy taxpayers were able to eliminate their entire tax liabilities through legal means, the AMT captured more than 3 million people in 2004. I'm using 2004 numbers because 2004 is the most recent year we have complete IRS data for. 3 million people were captured, even with the hold-harmless provisions that have been in place since 2001.

I also cited the widespread observation that the most significant structural flaw afflicting the AMT is the failure to index its rates and exemptions for inflation. This failure has resulted in the gradual encroachment of the AMT into the middle class, where taxpayers are being hit with a tax they were never intended to pay.

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.

If we don't extend the most recent AMT hold-harmless that actually expired at the end of 2006, that number is projected to balloon to a much greater amount, and long term budget forecasts currently show this greater amount coming into the Treasury. When forecasters put their projections together, they are working under the assumption that the hold-harmless that was extended in last year's tax bill will not be extended, because they base their assumptions on current law. Because of this, budget planners make the assumption that revenues will be much higher than everyone who is frustrated with the AMT thinks they ought to be.

The reason for this is that the AMT "balloons" the revenue base, as it is projected to increase revenues as a percentage of GDP. There is a great deal of evidence to support this.

On a side note, a senior well-respected tax lawyer on the other side of the aisle in the other body took exception to my use of the term "ballooning." The staffer wrote an article and criticized me for the term. While I'm not used to staff writing articles criticizing Members, I responded to the staffer's criticism through my staff. The essence of the senior tax staffer's criticism was that the term ballooning ignored the accounting for the interaction of bipartisan tax relief with AMT costs.

As we pointed out, ballooning revenue from the AMT occurs in the out years, whether or not the bipartisan tax relief is extended or made permanent. I will talk more about the point in a few minutes.

The non-partisan Congressional Budget Office has consistently forecast this ballooning year after year. This chart, reproduced from CBO's "The Long-Term Budget Outlook," published in December of 2005, shows how total federal revenues are expected to push through the 30-year historical average and then keep going up.

I just want to note that although the "Tax Increase Prevention and Reconciliation Act of 2005" was signed into law after this analysis was published, the 2006 tax bill extended the AMT hold-harmless only through 2006, and this chart shows federal revenues all the way to 2050. It is important to note the long term effects of the AMT on the revenue base.

There may be some doubters who hesitate to attribute this ballooning of revenues to the AMT, but this next chart illustrates the drastic expansion of the AMT, under current law, over the next 43 years.

This is also from the non-partisan CBO. You can clearly see that the share of households subjected to the AMT increases alarmingly to around 65 percent. I don't know what the population of this country is going to be in 43 years, but I know that 65 percent of the population in 2050 will be more than the 155 taxpayers the AMT was intended to target in 1969. This chart also shows how the AMT will assume a greater and greater share of total individual income tax liability. The CBO's report states that "by 2050, roughly 15 percent of individual income tax liability would be generated by the AMT, compared with about 2 percent today." And this is what will happen if we don't do anything. The analyses done by the CBO clearly shows an upcoming ballooning of federal revenues accompanied by a corresponding bloating of the share of households and the share of total liability attributable to the AMT.

A particularly wrongheaded argument that has been advocated is that the Bush tax cuts are responsible for increases in the number of people hit by the AMT. Some think that the Bush tax cuts are increasing some peoples' incomes so much that they are subject to the AMT, and that making the tax cuts permanent will only make the problem worse. This sort of reasoning is deceptive and could not be more wrong. First, the analysis I have presented done by the CBO looks forward all the way to 2050, and the Bush tax cuts under current law will sunset by 2010. As I have previously said, the AMT's greatest flaw is that it is not indexed for inflation, and inflation is going to continue whether the Bush tax cuts are extended or not. This chart from the CBO illustrates how the AMT will continue to be a money machine regardless of any other factor.

The bottom line illustrates individual income tax liabilities if the Bush tax cuts are made permanent and the AMT is modified. The middle line illustrates current law with the permanence of the Bush tax cuts, and the very top line is current law. If the Bush tax cuts are allowed to sunset and the AMT is left to grow and consume our middle class, the AMT will still balloon revenues anyway. Any argument that making the Bush tax cuts permanent will worsen our AMT problem is completely false. The AMT is a problem all by itself.

As I said earlier, the problem with all of the projections showing the AMT ballooning revenues is that these projections are used to put together budgets. 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. As a policy instrument the AMT has been and continues to be a complete failure.

As I discussed earlier this week, the AMT was originally conceived as a means to ensure that extremely wealthy taxpayers were not able to game the system and avoid their entire tax liabilities. In 1969 the AMT was calculated to hit 1 in 500,000 people. There is absolutely no way anyone can call the AMT anything close to a success.

The AMT has even failed in its objective to ensure that no citizen, no matter how wealthy, was able to completely avoid the federal income tax. In 2004, IRS Commissioner Mark Everson informed the Finance Committee that the same number of taxpayers, as a percentage of the tax filing population at large, continues to pay no federal income tax. According to an IRS analysis of tax year 2003 data, 2,366 taxpayers with incomes of \$200,000 or more who did not use the medical and dental expense deduction had no income tax. The AMT has failed in every way except for the ability to raise very large sums of money. While it may be hard for some to turn down taxpayer money, whether we are supposed to collect it or not, no one has trouble spending it.

This means that some want the taxpayer to pay the price for a tax that was designed poorly and through a comedy of errors was allowed to flourish.

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.

Making the offsetting of the AMT's ill-gotten gains a condition of an AMT fix is to punish the American taxpayer for an ill-conceived and poorly executed policy that has been a total failure. Aside from not increasing the proportion of wealthy taxpayers that pay income tax, the AMT is projected to balloon federal revenues over historical averages and to become a greater source of revenue than the regular income tax. Budget forecasters need to recognize that the AMT is not a legitimate source of revenue and Congress needs to be disciplined enough to show restraint on spending so that an AMT solution doesn't boil down to the replacement of one misguided policy with another. I yield the floor.