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Floor Statement of U.S. Senator Chuck Grassley of Iowa  
Ranking Member of the Committee on Finance  
Thursday, February 15, 2007

The Alternative Minimum Tax, Part 3

Mr. President, over the past few days I have tried to provide some clarity in the discussion of what to do with the Alternative Minimum Tax. Originally created in 1969 to target wealthy taxpayers who were able to legally eliminate their entire income tax liabilities, the AMT has turned into a monster that threatens to devour middle and lower income taxpayers if we let it.

The reason for this, as I have explained, is the failure to index the AMT for inflation. Thirty-eight years of inflation has allowed the AMT to spread to literally millions of taxpayers who were never intended to pay it in the first place. Though more middle- and lower-income taxpayers will be hit by the AMT, it has not decreased the percentage of high income taxpayers who have no tax liability.

The AMT also takes more than a taxpayer's money; it steals their time as well. As I have said before, the IRS estimates that taxpayers spend an average of 63 hours computing the AMT tax liability. The AMT is truly a very cruel way to raise revenue.

While there seems to be general agreement that the AMT is a problem, there has been less agreement on the solution. Perhaps I shouldn't be surprised that there are more problems than solutions, but I am surprised by some of the obstacles preventing a solution to the AMT. There are some who make the argument that any revenue not collected in the future as a result of AMT repeal or reform ought to be offset.

As I explained before, the AMT is a phony revenue source, and should not be offset since the AMT collects revenues it was never meant to collect in the first place.

Though the AMT is still with us, it is not because solutions have not been considered and proposed. Right now, I will walk through some of the solutions that are out there. Before I begin, I want to emphasize a point I made in a speech a few days ago. With surprising regularity over the past 38 years, Congress has been meddling with the AMT. Since 1969 more than 20 bills have made changes to the AMT. Sometimes the rate was adjusted. Sometimes the

exemption amounts were modified; and more than once graduated rates were introduced.

My point is that for 38 years Congress has hoped to tinker with the AMT in just the right way to finally get it right. Unless we truly believe that we are the smartest Congress in 38 years, anything short of complete repeal of the AMT will probably require further action in a few years.

I would also like to draw attention to a revenue estimate done by the Joint Committee on Taxation in 2005 that is reproduced on this chart. I ask unanimous consent that this estimate be printed in the record. This is an estimation of how various proposed fixes to the AMT will impact revenues expected to be collected under current law.

What you should note is that, full repeal aside, each of these proposals will still allow the AMT to bring hundreds of billions of dollars into the treasury. If you consider any proposal aside from full repeal, you are saying that hundreds of thousands if not millions of people out there deserve to bear the burden of the AMT.

One possible solution is to continue doing what we have been doing for the past several years. Ever since 2001, the Finance Committee has produced legislation that has kept additional taxpayers from falling prey to the AMT because of inflation. In the Tax Increase Prevention and Reconciliation Act of 2005 we were able to extend the hold-harmless through 2006.

That hold-harmless has already expired and action will need to be taken this year, or the AMT will return to its pre-2001 exemption levels, and tens of millions of taxpayers will fall into the AMT this year.

Suppose we are able to continue enacting one- or two-year temporary patches. First, this strategy assumes that Congress will have the time and inclination to spend time dealing with the AMT every year or two. This means that whatever the issues of the day may be – Iraq, unemployment, or natural disasters – Congress will have to stop dealing with those other problems and return to the AMT. Is the AMT an issue that we as a legislative body want to revisit every year?

Second, every time Congress attempts to enact or extend a patch, the same revenue issues are going to come up. Budget projections create the illusion of foregone revenues given up because of an AMT hold-harmless. Every time a patch is considered, there is another chance for taxpayers to be subject to a stealth tax increase.

Finally, we have to remember the more than 3 million taxpayers currently caught by the AMT. As this chart show, more than 3 million families and individuals paid the AMT in 2004.

In dealing with the AMT are we going to tell all these people "We know this isn't fair and we really would like to help you, but you are on your own?"

I hope that this body would be ashamed to say that to anyone, much less more than 3 million families and individuals. Any extension of a patch or hold-harmless will be

fundamentally flawed in that it doesn't take people already hit by the AMT into account. If we are going to decide to protect people from falling into the clutches of the AMT, it would be immoral to forget about those already subject to it.

I just want to add, as someone involved in enacting the recent hold-harmless provisions, that they were never intended to be a permanent solution. The patches were always intended to be temporary until more comprehensive AMT relief could be enacted.

Another idea is to limit the reach of the AMT based on income. We might decide that anyone who makes less than \$125,000 a year will not be subject to the AMT. Or maybe we could set that amount to \$200,000, or maybe \$400,000. In a nutshell I have laid out a principle difficulty with setting a minimum threshold based on income. How do we set a number that will be equitable for the entire nation? I'm not thinking of myself here so much as the so-called Blue State taxpayers.

Any Iowan who has spent any time in Washington, DC knows right away that it generally costs more money to live here. It costs more to buy a house and to buy food at the grocery store. What I am trying to get at is that prices and incomes are relative. Taxpayers living in areas such as Manhattan or San Francisco would be especially hard hit by an AMT limited by income. In fixing the AMT, I don't want to move problems around or reassign hardship.

Another proposal that has been suggested is to allow certain preference items in the calculation of the AMT. This would allow taxpayers to count items such as the personal exemption, the standard deduction, and state and local taxes against their income for purposes of calculating their AMT liability.

This approach is also fraught with difficult and unnecessary decisions. To implement this proposal, we would have to arbitrarily give some taxpayers an escape hatch while others would not be able to escape from the AMT. If we allow state and local taxes to be a preference item, we are giving an advantage to people who choose to live in high tax jurisdictions over those who choose to live in low tax jurisdictions.

In my way of thinking it is not fair for the federal government to give more favorable tax treatment to some taxpayers just because of where they live. Also, it seems likely that taxpayers who pay the most in state and local taxes are going to be the wealthy taxpayers that the AMT was supposed to tax in the first place.

If we were to give the standard deduction preferential status in calculating AMT liability, then I have concerns about the impact this would have on charitable giving. If we only allow the standard deduction to be taken against AMT liability, people may decide not to make a charitable donation they otherwise might consider.

On the other hand, we could allow individuals to count their total charitable contributions when calculating their AMT liability, but this approach favors those individuals wealthy enough to make large charitable contributions. The point I am trying to make is that allowing taxpayers

to consider certain preference items when calculating their AMT liability will make it necessary for us to favor some taxpayers over others. This approach is not equitable and will lead to more bills making more changes to the AMT as various groups and interests fight to allow a given exemption or deduction they favor to be taken against AMT liability.

Before I explain how we can deal with the AMT once and for all, I want to explain how various proposals impact the number of taxpayers hit by the AMT, as calculated by the non-partisan Joint Committee on Taxation last year. As the blue line on this chart shows, under current law the number of AMT filers will jump by over 20 million this year if Congress does nothing. The red line shows what would happen if the exemption amount applicable in 2005 was made permanent and indexed for inflation.

Clearly the number of taxpayers affected is less, but it is still a very large number that, after dropping to a low of 1.7 million in 2011, begins to increase again to 2.1 million in 2016. The orange line represents the establishment of a 24 percent rate along with the 2005 exemption made permanent and indexed for inflation.

This plan follows the same trend as the red line, as it incurs a drop before creeping back up. Finally, the green line shows what would happen if we took the 1985 exemption amount, which was \$30,000 for individuals, and \$40,000 for joint returns, and indexed that for inflation. As with the other three lines, the number of taxpayers affected drops before creeping back upward. Though some of these options seem to assist most taxpayers, do not be fooled by the large scale of this chart.

Even the option to index the 1985 exemption amount leaves at least several hundred thousand taxpayers exposed to the AMT, and it would be difficult to explain to those people why others deserved fair treatment and they did not.

Clearly there is only one way to fix the AMT so that no taxpayer is subjected to what has become a complete policy failure. We must completely repeal the individual AMT. There is a bipartisan consensus that only complete repeal is an adequate solution to this problem. Chairman Baucus, along with myself, Senator Crapo, Senator Kyl, Senator Roberts, Senator Schumer, and Senator Smith, last month introduced the Individual Alternative Minimum Tax Repeal Act of 2007. The AMT was originally conceived as a means of ensuring the tax code was equitable. Ironically, the only equitable thing to do is to completely banish the individual AMT from the tax code. Any other solution will entail that we treat taxpayers in similar situations differently, or that we arbitrarily choose winners and losers. As I have said many times, the AMT has been a complete and absolute failure.

The AMT was only supposed to hit a very small number of wealthy taxpayers who were able to legally eliminate their entire income tax liabilities. In reality, the AMT is gradually consuming our middle class and is projected to absorb more revenue than the regular income tax in just a few years. Furthermore, the AMT doesn't even prevent wealthy taxpayers from eliminating their tax liabilities. For tax year 2003, the IRS calculated that 2,366 taxpayers with incomes of \$200,000 or more did not pay any income tax. These 2,366 taxpayers did not use the

medical and dental expense deduction to eliminate their tax liabilities.

We must repeal the AMT and we must do it without offsetting any revenue the AMT is expected to collect in the future. I've made this point before, but it is important. The AMT was never intended to be a significant source of revenue. Despite this, the AMT will balloon federal revenues to historically high levels if something isn't done. This chart show how revenues are projected to exceed the 30 year historical average. If we consider the AMT to be a fundamentally unfair tax, any tax that would replace it would be equally unfair. Anyone who wants equity to be a fundamental value represented by our tax code or who wants fair treatment for this country's taxpayers must support complete repeal of the individual AMT and should support the Individual Alternative Minimum Tax Repeal Act of 2007. I yield the floor.