United States Senate
Committee on Finance

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Floor Statement of Senator Chuck Grassley
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I've stood on this floor many times over the past few months to advocate for the American families that will pay the alternative minimum tax in 2007. You have all heard me say that the AMT is an absolutely maddening tax that has insidiously crept into the homes of more and more families each year and that it should be repealed.

The AMT was first installed by Congress back in 1969. It created a two-tier tax system. It essentially pieced together a back-up tax to ensure the wealthiest taxpayers among us did not evade income taxes altogether through the use of tax shelters, loopholes and deductions in the labyrinthine federal tax code.

The road to tax fairness is paved with good intentions, but this one has created a giant-sized pothole that is going to drive middle-income taxpayers batty. Unlike the federal income tax, the AMT is not indexed for inflation. That means more and more middle-income taxpayers are being slapped with higher tax rates and fewer exemptions, credits and deductions as they fall under the creeping shadow of the 36-year-old stealth tax.

On top of the unfair tax burden is its mind-boggling complexity. No wonder the AMT is causing major heartburn among more and more families across America, especially those who live in high-tax states and have three or more children. That is because the AMT causes taxpayers to lose standard deductions for state and local tax payments and personal exemptions, including spouses and children.

In 2004, about 3 million taxpayers (about 2% of all taxpayers) were subject to the AMT, but without Congressional action up to 23 million taxpayers will be subject to the AMT in the 2007 tax year. In order to prevent this, my friend, Chairman Baucus, and I introduced legislation on the first day of the 110th Congress to repeal the individual alternative minimum tax beginning in the 2007 tax year. You have also all heard me say that the AMT has expanded beyond its original intent and that it is now a tax Congress never intended to collect.

Over the past 6 years, Congress has had to enact a series of "patches" to prevent the AMT from harming more and more middle class Americans. Most recently, Congress acted to prevent millions of taxpayers from receiving a surprise on their 2006 tax returns by including an extension of AMT relief in the Tax Increase Prevention and Reconciliation Act of 2005, H.R. 4297. This provision extended the AMT exemption that was initiated in the Jobs and Growth Tax Relief Reconciliation Act of 2003 through 2006, but at a higher level. The exemption for married couples filing jointly was increased from $58,000 to $62,550.

This week, in fact, marks the one year anniversary of the enactment of the conference agreement on TIPRA. That bill contained the AMT "patch" for 2006. Nearly 20 million American families that were exempt from the AMT because of the 2006 patch knew at this time last year that Congress was moving to relieve the AMT burden for 2006. This year those families, plus several million more, have no such assurance.

To the contrary, the Democratic Leadership, now the majority, in this Congress does not appear to be moving any legislation to address the AMT. I'd be happy for them to move the Baucus-Grassley repeal bill. I know our Chairman, Senator Baucus, is like me, concerned about the uncertainty caused by the inaction of the Democratic leadership.

The tax code has a thicket of problems requiring attention, but this is one of the thorniest and we must address it, not later, we must be address it now. Some of you may wonder why this is a pressing issue. Why can't this wait for an AMT patch at the end of the year? I'll tell you why — it is because the 23 million American families that are subject to the AMT in 2007 are dealing now with the uncertainty of whether, by hook or by crook, they must come up with money to set aside to pay that tax in April of 2008. And many of them -- just check the instructions for the 2007 estimated tax payments form -- many of them don't have the option of waiting until April of next year to pay this year's tax because they have to make estimated tax payments.

Those families have already seen that first estimated tax payment come and go. Hopefully, they had some refund coming to them from last year that they were able to offset against a portion of that first payment. But, of course, we know many of them had to shell out to the tax and send Congress more of their hard earned money with that first estimated tax payment in April.

Unfortunately, as unpopular as the AMT is among taxpayers and policymakers, it is not easy to simply erase it from the books because of the massive amount of revenue that it is set to raise over the next decade for the Federal Treasury.

Until recently, I had hoped that the Senate was unified in not wanting to collect the AMT for this year or any year in the future. On March 23 I offered an amendment to the Fiscal Year 2008 Senate Budget Resolution that would have required Congress to stop spending amounts that are scheduled to come into the federal coffers through the AMT. This would have put some honesty back in the budgeting process.

However, not a single one of my colleagues on the other side of the aisle voted it its favor. Repealing the AMT would put lawmakers on notice to either trim federal spending by a like amount or be transparent about the revenue base.

On the House side, we hear that the Ways and Means Committee is doing a lot of talking about the AMT but they have yet to move to action. We are forced to wonder what their plan may be. To do that we need only read what they have been saying and think through to the conclusions on such proposals.

It has been reported that House Democrats plan to exempt everyone who earns less than $250,000 from the AMT. It sounds to me like they might be on the right track to full repeal when I hear that. However, as I said, we need to follow through on what exactly they would do they if they insist on providing payfors to cover the lost revenue.

One option that is reportedly being floated on the House side is to pay for a $250,000 AMT exclusion by raising the top marginal income tax rates. Well we have found some shocking numbers when we examine that further. In order to exempt folks who earn less than $250,000 from the AMT if you insist on raising taxes to offset it, you would have to raise the top marginal tax rate to over 46%. That's right, I said 46%.

I want to take a few minutes to put that regular income tax rate into a historical perspective. In 1913, when less than 1% of the population was subject to the income tax, the income tax rates ranged from 1% to 7%. Rates increased significantly during the 1920s, 30s, and 40s up to a top marginal rate of over 90%.

The concept of deductions for home mortgages, interest, charitable contributions, State and local taxes, to name a few, became ingrained in the code during this period of stifling high tax rates. During the President Kennedy Administration, tax rates were reduced from 91% to 70% on the highest income levels, and rates fell again during the Reagan Administration first from 70% to 50% and then again to a top marginal rate of 28% with the Tax Reform Act of 1986. The top rate now stands at 35%.

Now it is important to remember when we look at those historical rates that the tax base was narrower prior to 1986 than it is today. Many phase-out and phase-in concepts took hold in 1986 such as the PEP and Pease limits. Today substantially all individual tax incentives are phased-out and capped. The result of this base broadening is that if the tax code were to approach a tax rate similar to the highest marginal rate under the more narrow pre-1986 tax base, it would result in a substantially higher effective tax rate than the pre-1986 tax rates. A marginal regular income tax rate of over 46% may actually exceed the top effective rate that was in place before the 1986 Reform Act because of the increase in the tax base.

Another option that may be working it's way through the mill on the House side is to pay for that exemption by raising the top AMT rate. Again, with that option, the tax rate increase is staggering. The top AMT rate would go up to nearly 37%.

There is a popular misconception that of Congress can sit on its hands on tax policy before the next election and that there will be no tax increase until 2011. While that view is comforting, it is uninformed. Just enacting the AMT patch for 2007 will cost about $50 billion dollars. That also means that without doing the patch Americans will feel a $50 billion dollar AMT increase. We must act to prevent that increase.

Now the folks who voted against my amendment to take that AMT revenue off the table for the tax and spenders have some real explaining to do soon. It is possible that they will do nothing on the tax side and the result is a $50 billion tax increase on families subject to the AMT in 2007. Or, they may propose some sort of exemption or relief that is paid for by other tax increases and face the music on proposing a massive tax increase on the neighbors of those who have been paying the AMT. Or, perhaps they will provide AMT relief but fiddle away the money in the budget anyway and increase the deficit.

I suggest that the tax and spenders consider learning to hum a different tune and spend within their means soon or folks may just figure out that you planned to raise their tax rates all along. So, the sad reality is that while it is the new Congressional majority that needs to face the music, it is likely to be the American taxpayers that will end up singing the blues.

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