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Floor Speech of Sen. Chuck Grassley  
AMT, 3<sup>rd</sup> Quarter Est Tax Payment  
Delivered Wednesday, Sept. 19, 2007

I am here to follow through on a promise I made on June 13. At that time I said that I was going to keep talking about the Alternative Minimum Tax until Congress took action to protect the roughly 19 million families and individuals that will be hit by it in 2007 that did not have to pay it in 2006. I am also here to talk about a promise that Congress needs to follow through on — which is to protect those 19 million families and individuals from the AMT for tax year 2007. In 2006, around 4.2 million families and individuals were captured by the AMT. For taxable years after 2006, legislation that temporarily increased the amount of income exempt from the AMT expired; so under current law we expect around 23 million families and individuals to fall victim to it this year.

This chart illustrates the current situation. Tax year 2007, as represented by the boat, is rapidly approaching the AMT iceberg. Right now most of the iceberg, the part that represents the 19 million additional taxpayers that will be caught by the AMT in 2007, is underwater. The full magnitude of this imminent disaster will become apparent when those 19 million families and individuals start working on their 2007 tax returns.

Actually, circumstances are worse than I have just implied, if you can imagine that. Many families have already fallen victim to the AMT. I am referring to those that make quarterly estimated tax payments. The last time I spoke to you here on the Senate floor was on the occasion of estimated tax payments for the second quarter coming due.

I would like to say that I am also speaking to my fellow senators, but I'm not sure how many of them are listening right now. Between then and now three months have passed, and estimated tax payments for the third quarter were due this past Monday, the 17<sup>th</sup> of September.

Before I go any further, I want to specifically address the size of the population that makes estimated tax payments. In case anyone is thinking that this is a very small group of people, the Statistics of Income division at the Internal Revenue Service states that for tax year 2004, almost 11 million families and individuals made estimated tax payments.

I am not saying that each of those filers would be captured by the AMT in 2007, but I want to point out that the number of people making estimated tax payments is large, and that for those among them hit by the AMT we have already failed them.

As I have said, I last addressed the AMT on the Senate floor three months ago, and in that time no progress has been made.

I think this chart accurately portrays what Senate leadership has accomplished in the past three months, in that it shows a giant goose egg. I have served the people of Iowa in Congress for many years, and in that time I have learned that generally, things do not happen overnight here. It takes time to formulate ideas and to build enough support to take action. This is why I am particularly unhappy with this giant goose egg. The current leadership has indicated that they have many things they wish to accomplish this year, but time is rapidly running out and a plan for dealing with the AMT has not been proposed, much less a specific solution.

The prospect of the AMT swallowing huge swaths of taxpayers is not a new problem, but until now we have been able to keep it in check. Since 2001, the Finance Committee has produced bipartisan packages that have continually increased the amount of income that is exempt from the AMT. This was possible thanks to the help of Senator Baucus, currently chairman of the Finance Committee. Together he and I were able to minimize the damage caused by the AMT.

These increases in exemption amounts, designed to keep pace with inflation and slow the spread of the AMT, were never what I envisioned as a permanent solution. Rather I consider a permanent solution to be the policy represented by S. 55, the "Individual Alternative Minimum Tax Repeal Act of 2007."

Once again I have to credit Chairman Baucus for his advocacy on behalf of tax fairness, as he introduced this bill with me in addition to Senators Crapo, Kyl and Schumer signing on as original cosponsors. Senators Lautenberg, Roberts, and Smith have also signed on as cosponsors. In case any of our friends in the House of Representatives are paying attention, a companion bill exists in H.R. 1366, the "Individual AMT Repeal Act of 2007" as introduced by Congressman Phil English. What these bills accomplish is to completely repeal the AMT without offsetting it. That is, they do not replace taxes no longer collected from the AMT by raising taxes someplace else.

I think it is very important to ensure that revenues the federal government does not collect as a result of AMT reform are not collected elsewhere. The AMT was never meant to raise revenue and certainly was not meant to bring in the masses of money it does now. The AMT was conceived as a way to promote basic tax fairness in response to concerns about a very small number of wealthy taxpayers who were able to eliminate their entire income tax liabilities through legal means. The tax created to deal with this concern was originally calculated to affect 1 in 500,000 taxpayers. Over the course of 38 years this small salute to tax fairness has grown into a monstrosity of a revenue raiser.

This chart, taken from "The Long-Term Budget Outlook," a Congressional Budget Office publication last published in December of 2005, illustrates how the AMT will swallow more taxpayers as revenues collected balloon.

Left alone, the CBO calculates that more than 60 percent of families and individuals will fall prey to the AMT as it absorbs more than 15 percent of total tax liability by 2050. This next chart, taken from the same CBO publication, illustrates how under current law revenues collected by the government are projected to push above their historical average and to keep growing as the AMT brings in more and more money.

Anyone who maintains that AMT reform or repeal needs to be offset is not actually doing anything about the problem that these charts illustrate. The problems the AMT is responsible for are the ballooning of federal revenues above historical levels and a burden on middle-class taxpayers that keeps increasing over time. Offsetting AMT revenues does absolutely nothing to address these issues and seems to me to be an attempt to pretend to solve a real problem by actually trying to hide it.

Aside from the long-term problems with the AMT we can solve by repealing it, the AMT poses a short-term problem to the taxpayers who will fall into its clutches this year if Congress does not act. Under current law, 19 million more families and individuals will be caught by the AMT this year.

That 19 million probably includes many taxpayers making estimated tax payments. Some of these families and individuals may not be taking the AMT into account as they make their payments simply because they do not realize that they ought to. Additionally, there may be some taxpayers who are required to make estimated tax payments when subject to the AMT, but are not required to make estimated payments under the regular income tax system. At the end of this tax year, not only could these well-meaning filers find themselves subject to the AMT, but they could also face the increased insult of being fined by the IRS for unintentionally miscalculating their estimated tax payments.

I do not believe that these well-intentioned taxpayers ought to be penalized because Congress has not come through on its promise to at least keep the AMT from running wild. That is why, on July 23, I introduced Senate bill 1855, the "AMT Penalty Protection Act of 2007." This legislation protects individuals from the penalty for failing to pay estimated taxes on amounts attributable to the AMT in cases where the taxpayer was not subject to the AMT last year. This isn't a giveaway meant to compensate for the AMT, as it does not protect taxpayers who paid the AMT last year. Rather, this bill protects the families and individuals who do not yet appreciate the horrible impact that our failure to act is going to have on them.

I am not the only one who thinks this legislation is a good idea. Senators Allard, Brownback, Collins, Hutchison, Smith, and Snowe have agreed to cosponsor the legislation. In addition, I have received letters from the Committee on Personal Income Taxation of the New York City Bar as well as the National Association of Enrolled Agents in support of the provision of a safe harbor from IRS interest and penalties resulting from a failure to pay estimated taxes on amounts resulting from the AMT in cases where the taxpayer was not liable for the AMT in 2006. I ask unanimous consent that these letters be printed in the record. I would like to believe that this legislation is not necessary because we are going to prevent the AMT from swallowing new taxpayers in 2007, but I am not especially optimistic.

In closing, I would just like to encourage the Democratic leadership to keep our promise with the American taxpayer and at least modify exemption amounts for 2007. Of course the best option is to completely repeal the AMT without raising taxes elsewhere, but for the time being the only thing taxpayers can rely on is the same goose egg they have been sitting on all year.