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Floor Statement of Senator Chuck Grassley
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Earlier this week I came to the floor to flesh out some of the options that may be circulating among the current Democratic majority on the House side for resolving the crescendo of the AMT crisis.

As I said then, I don't like what I'm hearing about what the other body may put on the table in terms of paying for an AMT solution. However, I want to make perfectly clear a point on which we agree – I completely agree that dealing with the AMT is a priority issue and that Congress needs to address it now.

The AMT is an absolutely maddening tax that has insidiously crept into the homes of more and more families each year and it should be repealed.

The number of families paying the AMT will rise from 4 million families in 2006 to 23 million families in 2007 in the absence of legislative action. 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 but it doesn't appear that the Democratic leadership is eager to take up that legislation.

In each of the past 6 years, Congress has passed legislation which temporarily increases the amounts of income exempt from the AMT. These temporary exemption increases have prevented 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 this temporary AMT exemption increase in the Tax Increase Prevention and Reconciliation Act of 2005. In TIPRA, the exemption for married couples filing jointly was increased from \$58,000 to \$62,550 for the 2006 tax year.

This week marks the one year anniversary of the enactment of TIPRA. Nearly 20 million American families that were exempt from the AMT because of the temporary exemption increase in 2006 knew at this time last year that Congress was moving to relieve the AMT burden for 2006. This year those families have no such assurance because the Democratic Leadership, now the majority, in this Congress does not appear to be moving any legislation to address the AMT.

Some of you may wonder why this is a pressing issue. Maybe you take the view that you need not address this because the AMT is such a stealth tax that the millions of Americans who are going to owe AMT for 2007 have not even thought about it yet.

I can understand why the taxpayer may not be thinking about it because for the past six years Congress has addressed the issue on a timely basis and the taxpayer didn't miss a beat. When the Republicans were in the majority American families could count on Congress on this issue.

Now, it is nearing the summer-time under Democratic leadership and there is no clear path to a credible temporary or permanent solution. That is why it can't wait. I hope, however, that my colleagues have heard from some constituents on the AMT. Many of you may have because of the taxpayers who became all too aware of the 2007 AMT problem when they prepared their estimated tax payment form in April 2007. Those families have made their first payment for the 2007 tax year and are painfully aware of Congress' failure to act on AMT this year.

You know, 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, almost two months ago, 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 in favor.

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. It has been reported that House Democrats plan to exempt everyone who earns less than \$250,000 from the AMT. That sounds to me like a step in the right direction. However, the new Democratic majority has pledged to offset any tax cuts. Some staggering proposals are bouncing around to offset the \$250,000 exemption from the AMT. I outlined two of them on Monday. One option would raise the top marginal income tax rate to over 46% -- that's up from 35% under current law. Another option the House may be considering is to raise the top AMT rate to 37%, up from 28% under current law.

Now, I have to believe that anyone would shy away from actually proposing a double digit tax rate increase. So, let's take a minute to explore another approach that we've heard floated for AMT relief -- paying for it by raising marginal tax rates on the top three income tax brackets. I don't know why Congress would want to raise taxes on the top income tax bracket, let alone the top three brackets. However, if that idea is getting serious attention then we need to look behind the lipstick and examine that pig.

I have a chart here to show you how many taxpayers would be impacted. In 2004, there were nearly 6 million individuals and families in the top three tax brackets.

Let's go through the analysis to show you what the grim scenario of raising taxes on the top three income tax brackets might look like. I have another chart which lays out the numbers on an option prepared by the Tax Policy Center.

I don't want you to think that I am highlighting a partisan, republican analysis here. The Tax Policy Center has undertaken an extensive analysis of multiple options on the AMT.

I think it would be more than fair to say that they are a group that my colleagues on the other side of the aisle often look to for reasoned analysis on policy issues.

In fact, I believe they recently testified at a Ways and Means Committee hearing on precisely this point. They outlined many options in their study and this is just one that I want to walk through for illustration purposes.

This option – they call it the “Broad Reform and Increase Top Income Tax Rates” option – would reduce the number of AMT taxpayers by almost 90 percent in 2007. So, that would be down to .3 million from about 23 million. Only 100,000 taxpayers with income below \$200,000 would owe the AMT under their plan. Again, I think this is a step in the right direction until I look at their plan to offset it.

To offset this AMT relief, the plan would raise income tax rates on the 6 million families in the top-three income tax brackets. This chart shows you where ordinary tax rates would go.

For taxpayers in the current 28% bracket (and that includes single taxpayers earning about \$74,000 and married families earning \$124,000) their tax rates would increase from 28% to 35.4%. That is higher than the current tax rate for the wealthiest taxpayers.

The current 33% bracket would go up to 41% and the top tax bracket would go from the current 35% up to 45%. So, again, we would be facing another option that requires a double digit marginal tax rate increase.

While I applaud the efforts of many to analyze potential AMT solutions, I urge my colleagues to beware of anyone bearing marginal tax rate increases in their basket of goodies to solve this problem. Do not let anyone sell you a bill of goods friends – it would be a massive tax rate increase.

Congress should control spending and stop budgeting with revenues flowing in on the ledger from the AMT instead of increasing taxes to solve the problem. AMT tax relief that relies on increases in ordinary tax rates to move the ball turns out to be no tax relief at all.