

Republican Senators Block Bill to Pay for AMT Relief; Force Senate to Turn to Borrowing \$50 Billion

On Thursday, December 6, Republicans in the Senate voted en masse against consideration of a bill (H.R. 3996) passed last month by the House of Representatives to provide relief from the Alternative Minimum Tax (AMT) and offset the cost by closing loopholes for extremely wealthy financial managers. Instead, Republican leaders demanded that the federal government borrow the \$50 billion. They got their way later in the evening, when the chamber passed a bill simply extending AMT relief without paying for it.

This sets the stage for a standoff with the House, where Democratic leaders are adamant that no laws be enacted to increase the federal deficit, in keeping with the pay-as-you-go (PAYGO) rules that were reinstated when the Democrats took control of Congress earlier this year. But in the Senate, because 60 votes are needed to pass most legislation, the Republicans were able to block the fiscally responsible approach even though it was supported by every member of the majority party.

“I’m willing to accept a tax cut for people making upwards of \$100,000 a year, if we send the bill to people making millions,” said CTJ director Robert S. McIntyre. “But I can’t support cutting taxes for such well-off people and sending the bill to people who make \$50,000. Yet sadly, it’s exactly those ordinary taxpayers who will likely bear the cost of the increased debt — through higher taxes or reduced public services in the future.”

Effects of AMT relief in 2007

Income group	Income Range	Average Income	# with tax cut	% with tax cut	Ave. tax cut with	Ave. tax cut all	% of total tax cut
Lowest 20%	Less than \$18,000	\$ 11,700	—	—	\$ —	\$ —	—
Second 20%	\$18,000 – 31,000	23,900	—	—	—	—	—
Middle 20%	\$31,000 – 50,000	39,200	394,700	1.4%	-632	-9	0.5%
Fourth 20%	\$50,000 – 84,000	64,900	3,742,900	13.5%	-830	-112	6.5%
Next 10%	\$84,000 – 121,000	99,700	7,796,500	56.2%	-1,425	-801	23.2%
Next 5%	\$121,000 – 172,000	141,700	5,532,200	79.7%	-2,231	-1,778	25.8%
Next 4%	\$172,000 – 455,000	250,800	5,032,300	90.7%	-3,986	-3,614	42.0%
Top 1%	\$455,000 or more	1,479,000	280,700	20.2%	-3,352	-678	2.0%
All Units		\$ 69,800	22,779,300	16.2%	\$ -2,099	\$ -340	100.0%

Notes: Figures show the 2007 effects of the House-passed bill, which entails a temporary, one-year increase in the exemption levels for the Alternative Minimum Tax. It does not include the effects of the House-passed revenue offsets, which the Senate rejected. "Ave. tax cut with" means tax cuts for those helped by AMT relief. "Ave. tax cut all" means the average for all taxpayers in each group.

Source: ITEP Tax Model, Nov. 14, 2007

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Republicans Manage to Preserve Loophole for “Carried Interest” — for Now

In the AMT relief bill passed by the House last month, one of the revenue-raising provisions to offset the cost would have closed the loophole for “carried interest,” a type of compensation paid to buyout fund managers. Republican leaders have demanded that the loophole allowing wealthy fund managers to pay taxes at a [lower rate than middle-income families](#) be preserved. They appear to have gotten their way for now, as House Ways and Means Committee Chairman Charles Rangel has said he would drop the carried interest provision and replace it with some potentially more palatable revenue-raising provision.

But the battle over carried interest is far from over. In September, CTJ sent to the House and Senate a [letter](#) signed by around 300 organizations from every state urging that the loophole for carried interest be closed. Lobbyists for the industry have acknowledged that the issue is likely to come up again in the next couple of years as Congress considers broader tax reform.

President Bush Relied on Expanding Reach of AMT to Mask Cost of His Tax Cuts

Republican congressional leaders claim that Congress should eliminate the AMT without paying for it because no one ever intended to collect the AMT’s revenues. But that’s not true.

When George W. Bush proposed his tax cut plan, he and his tax advisors were well aware that, since the AMT is an alternative tax, lowering the regular tax rates without adjusting the AMT would push tens of millions of people into the AMT. But they needed the added AMT revenues to significantly reduce the projected cost of Bush’s tax cut program. In fact, Bush’s chief economic advisor was adamant that Bush’s plan contemplated a huge increase in the AMT.

“Having created most of the AMT problem, Bush and his congressional allies are now trying to rewrite history so they can get away with loading even more debt on our children,” said McIntyre. “They shouldn’t be allowed to get away with it.”