

Rangel's AMT Riddle Continues

By Gene Steuerle

Gene Steuerle is a senior fellow at the Urban Institute and an economic consultant to Tax Analysts.

Copyright 2007 Gene Steuerle.
All rights reserved.

Imagine you're the chair of the most powerful committee in Congress, and you're a (political) party type of guy. Thanks to something called the alternative minimum tax, a moderately hefty and accelerating tax increase is about to hit upper-middle-income and lower-upper-income taxpayers, but not very high-income taxpayers.

Now mix in some other budgetary and political problems. On the budget side, much of that revenue increase has already been earmarked to support increased spending. Of more than \$300 billion of additional taxes due to be collected in 2010 — some of which is attributable to this AMT juggernaut and some simply to hoped-for economic growth — well over half already has been tapped to pay for more healthcare, primarily for the elderly and near-elderly.

On the political side, you've got tough sledding as well. Your party has promised to be the party of fiscal prudence . . . that is, as long as it doesn't bite too hard. Thus, it permits half-way measures, such as covering costs of changes only in a short budget window, leaving how to cover future costs unresolved. Your opponents aren't willing to pay for anything at all.

Meanwhile, the blame game has started. Although there is plenty of blame to go around, *The Wall Street Journal* editorial page says the AMT mess is all due to the Democrats. Conveniently forgotten are (1) Republican tax cuts in 2001 through 2004 that deliberately counted on AMT revenues to reduce the net costs of other cuts and (2) the president's own budget, which counts on the AMT revenues (which he says somehow he wants to keep without keeping the AMT). Your party, of course, wants to blame only the Republicans, despite the deliberate effort by the Clinton administration to retain most AMT revenues by raising the AMT tax rate when the regular tax rate was increased in 1993.

What to do? Here were the choices that faced you all year:

(1) You could pay for permanent AMT reform by raising taxes on others. That way you get blamed directly for enacting tax increases on some people and little credit for preventing the tax increases that others haven't yet seen. Worse yet, if you try to

concentrate the tax increase only on the rich, you've weakened your ability to use this particular means to help get the budget in line sometime down the road. If you think there's going to be a Democratic administration soon, you've taken away one of its potential options. Neither your party nor your opponents have ever really been known for telling the middle class it has to pay for its own benefits.

(2) You could do nothing. Then you get blamed for letting the AMT increase hit millions of taxpayers. And the problem continues to grow larger each year.

(3) You could provide a temporary reprieve from the AMT by continuing to enact permanent changes in the tax system of a smaller order of magnitude. This way you still get blamed for a tax increase, and next year, when the cost of a temporary reprieve gets even larger, you get blamed again.

(4) You could do like the Senate — throw in the towel for now, and essentially drop your party's adherence to budget constraints. That way, however, your short-term political dilemma is traded for an even bigger one down the road, when you've still got to figure out what to do each succeeding year about the AMT, while all those other promises become even less affordable. Another consequence is letting the other party off the hook now, when it does control the presidency — while increasing the responsibility (and pain) your party will have to endure if it happens to win control of two branches of government and has to reform the AMT by itself.

The simple fact is that when the numbers don't add up, they don't add up. You can shift the discussion around continually to another part of the balance sheet, but that doesn't rid you of the riddle of how to make it balance. In effect, the only solution to the riddle is to toss out long-term promises that can't be met and replace them with a legitimate budget process.

Sure, you'd like to think that a new Democratic president would make it easier for the Democratic Party, and so you inevitably want to punt one more time. So you were willing to opt for the third choice outlined above, and, without any support from the current president or the Senate, you got boxed into the fourth. But, as noted, that choice has significant negative economic and political ramifications. As long as you and the congressional leadership don't try to figure out a better budget process and a better way to confront these issues — for instance, through the efforts of some members of Congress to set up a bipartisan commission with some teeth — it will only get a lot worse for you, no matter who is elected.