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Contact: Bob McIntyre, 202-299-1066 x22

Congress & Public Face Stark Choice on AMT

Washington lawmakers are at loggerheads about how to pay for a “patch” to the Alternative Minimum Tax that would curb or eliminate the impact of the AMT on almost 23 million taxpayers in 2007. The debate has broken down almost entirely on party lines.

On one side, Democrats have already passed a bill in the House that would pay for AMT relief by closing tax loopholes that allow a tiny group of extremely wealthy investment managers to pay lower tax rates than average working families, and by narrowing loopholes that now allow multinational corporations to shift their U.S. profits offshore to avoid taxes.

On the other side, Republicans argue that the one-year AMT patch should be paid for by adding another \$50 billion to the national debt. President George W. Bush is the leading advocate of this position, having promised to veto any AMT relief that is not financed by borrowing. Similarly, Bush’s allies in Congress have refused to offer any alternative other than borrowing to pay for AMT relief, even though congressional budget rules require that tax reductions be financed by offsetting tax or spending changes.

AMT relief, *by itself*, would not be particularly progressive, as illustrated by the table on the next page. Most of the benefits would go to the richest fifth of taxpayers, and if it’s deficit-financed, the cost could be borne in the future by middle-income Americans in the form of cuts in public services or higher taxes. But AMT relief can be progressive if the costs are offset with revenue-raising provisions that target the very wealthiest Americans, those who have benefitted the most from the Bush tax cuts.

This is exactly what H.R. 3996, the bill passed by the House of Representatives last week, does. It closes loopholes that benefit highly-compensated fund managers, for example, who are likely to be among the wealthiest people in America.

“Congress and the public have to choose,” said Robert S. McIntyre, director of Citizens for Tax Justice. “Should we protect 23 million hardworking American families from the AMT by cracking down on billionaire tax dodgers and multinational tax avoiders? Or should we protect the tax dodgers’ loopholes and stick it to those 23 million families?”

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Today, CTJ released an analysis of the effects of the House-passed AMT relief plan by income group, along with a state-by-state analysis of how many families will be helped by the bill. The analyses show:

- Almost all of the benefits of AMT relief (91 percent) will go to taxpayers in the top fifth of the income scale, excluding those in the top one percent. Specifically, that means those making \$84,000 to \$455,000 a year.
- The cost of paying for AMT relief will be borne almost entirely by a small subset of the best-off one percent of taxpayers — those making *more* than \$455,000 a year. (As the table shows, only 2 percent of the benefits of AMT relief will go to the top percent.)
- Nationwide, about one out of six taxpayers will benefit from the House-passed AMT plan.
- Among the states, New Jersey, Maryland, Massachusetts, Connecticut, New Hampshire, New York, Virginia, Minnesota, Pennsylvania and Illinois have the highest percentage of residents who will be helped by the House bill.

Effects of the House-passed 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 only the 2007 effects of the House-passed bill (H.R. 3996), which stem from a temporary, one-year increase in the exemption levels for the Alternative Minimum Tax. Other tax reductions in the bill that take effect after 2007, as well as the post-2007 loophole-closing measures that pay for the entire bill, are not included in the table.

"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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Effects of the House-passed AMT relief in 2007, by state

	# with tax cut	% with tax cut	Ave. tax cut with	Ave. tax cut all	% w/ tax cut rank
US Totals	22,779,300	16%	\$ -2,099	\$ -340	
Alabama	235,800	11%	1,828	205	48
Alaska	43,400	14%	1,952	274	29
Arizona	380,400	14%	2,171	314	27
Arkansas	132,700	10%	1,706	174	50
California	2,813,300	18%	2,345	420	11
Colorado	334,400	15%	2,170	327	23
Connecticut	354,200	21%	2,047	434	4
Delaware	63,600	15%	2,133	316	25
Dist. of Col.	44,300	15%	2,319	354	22
Florida	1,082,400	12%	2,211	267	44
Georgia	532,500	13%	2,106	270	36
Hawaii	91,800	14%	1,873	262	30
Idaho	90,400	13%	1,829	246	33
Illinois	1,077,000	18%	2,073	379	10
Indiana	453,000	16%	1,711	266	18
Iowa	216,900	15%	1,853	278	24
Kansas	209,700	16%	1,868	302	16
Kentucky	249,100	13%	1,991	252	39
Louisiana	232,300	12%	1,842	215	46
Maine	82,100	13%	1,930	241	41
Maryland	651,400	24%	2,181	518	2
Massachusetts	688,100	22%	2,363	528	3
Michigan	771,200	17%	1,764	294	14
Minnesota	466,700	19%	2,160	401	8
Mississippi	129,100	10%	2,000	195	51
Missouri	388,900	14%	1,939	273	28
Montana	56,800	12%	1,905	233	42
Nebraska	123,700	15%	1,889	291	19
Nevada	157,300	13%	1,551	208	34
New Hampshire	134,100	21%	2,020	426	5
New Jersey	1,052,500	25%	2,736	678	1
New Mexico	110,500	13%	1,711	216	40
New York	1,781,500	19%	2,543	491	6
North Carolina	572,400	14%	2,106	289	32
North Dakota	39,200	13%	1,863	237	37
Ohio	885,000	16%	1,827	294	17
Oklahoma	191,400	12%	1,969	232	45
Oregon	220,800	13%	2,132	271	38
Pennsylvania	1,125,500	18%	1,993	369	9
Rhode Island	77,300	14%	2,464	343	31
South Carolina	261,300	13%	1,858	240	35
South Dakota	45,900	12%	1,829	223	43
Tennessee	305,300	11%	1,473	157	49
Texas	1,532,300	15%	1,972	303	21
Utah	161,800	15%	2,076	319	20
Vermont	53,900	17%	1,844	318	13
Virginia	723,800	19%	2,170	418	7
Washington	435,800	15%	1,793	264	26
West Virginia	97,600	11%	1,585	180	47
Wisconsin	466,300	18%	1,939	342	12
Wyoming	41,100	16%	1,541	250	15

Note: US totals include other areas

Source: ITEP Tax Model, Nov. 14, 2007