

THE TAXONOMIST

In Praise of the Alternative Minimum Tax

By Robert S. McIntyre

America's tax system, the juice that fuels our nation, isn't doing well lately. Income tax revenues have fallen to their lowest level as a share of the economy since before World War II, causing enormous deficits and threatening our nation's future. But one piece of our income tax code is on track to do at least something to mitigate this fiscal disaster: the individual alternative minimum tax, or AMT.

The AMT was enacted to make it harder for very wealthy people to avoid taxes. For a pleasing recent example, take our vice-president, Dick Cheney, a man who's been known to have "other priorities" when it comes to inconveniencing himself for the country that made him a multi-millionaire.

On his 2003 tax return, Cheney reported \$1.9 million in income. But he found so many shelters and loopholes that absent the AMT, his tax bill would have amounted to only 11 percent of his enormous income. With the AMT, he paid 13 percent—not a gigantic increase, but still an improvement. Without the AMT, Cheney would have received a tax cut last year of \$37,000 from the Bush-Cheney tax program. But the AMT lowered his tax cut to "only" \$11,000—two-thirds less than he otherwise would have received.

Not surprisingly, Republicans aren't happy about such obviously good effects. On the House floor in May, GOP Rep. Rob Simmons of Connecticut typically grumbled that the AMT is "growing like the monster from the tax lagoon." But liberals also have lined up to criticize the AMT.

"The AMT has become a tax penalty," complained Rosa DeLauro (D-Conn.) during that same House debate. "I am in favor of repealing it," added Richard Neal (D-Mass.). "It has outlived its purpose, and now middle-income taxpayers are being asked to carry its burden." Even the left-leaning Urban/Brookings Tax Policy Center screamed in the title of a 2002 paper that the AMT is "Out of Control."

The liberal confusion about the AMT is epitomized by the *Washington Post*, which has frequently editorialized against the AMT. "Taxpayers . . . aren't going to tolerate—nor should they—being swept into an alternative tax universe," said the *Post* on April 10 of this year. The *Post* criticized the AMT as a direct attack on the Bush tax cuts that "if left to take effect, would recover a good chunk of that tax relief."

Now wait a minute. I thought the *Post's* editorial writers, like all right-thinking Americans, were against the Bush tax cuts and want to repeal most or all of them. But if that's our goal, then the AMT is the only thing actually working in that direction right now.

There's no doubt that the AMT is scheduled to grow rapidly. In part that's because its exemptions aren't adjusted for inflation. But most of the AMT's growth is directly due to Bush's tax cuts, which lowered regular tax rates without adjusting the AMT's.

So far, Congress has enacted temporary patches to counter the AMT's effects on Bush's tax cuts, but those patches are getting more and more expensive. Under current law, AMT payments are projected to rise from \$15 billion this year to \$40 billion in 2006—undoing 15 percent of the Bush income tax cuts. By 2010, the AMT is slated to take in \$95 billion, lowering the cost of Bush's income tax cuts that year by almost a third. The effects will be heavily concentrated among people making more than \$100,000, who will lose more than two-fifths of their Bush income tax cuts.

To be sure, the AMT has some notable defects. It doesn't disallow key upper-income loopholes such as special breaks for capital gains and dividends, but it does deny deductions for state and local taxes, perhaps the most defensible write-off in the tax code. As a result, the AMT is less effective in making the super rich pay their fair share than it ought to be. And there is a certain amount of stupidity to a tax code that gives with one hand and takes back with the other. But from the point of view of fiscal sanity, that's certainly better than simply giving with one hand.

Some people—including me—have predicted that Congress will never force tens of millions of taxpayers to file the complicated AMT form, as current law envisions soon. Under this view, the rosy AMT revenue projections for the second half of this decade are simply a hoax to cover up the true cost of the Bush tax cuts.

But just because we expect our lawmakers to remain hopelessly irresponsible doesn't mean we need to encourage them. Congress shouldn't get a free pass to gut the AMT without finding ways to reform the regular income tax to pay for it.

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