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Sen. Crapo: Repeal the Alternative Minimum Tax

by [Robert B. Bluey](#)
Posted: 09/27/2005

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Before Hurricane Katrina swept aside much of the congressional agenda for the remainder of the year, a bipartisan group of senators was on course to repeal the Alternative Minimum Tax—a tax that will soon hit most middle-income Americans.

Because many taxpayers are unaware of the AMT—it was created in 1969 to ensure the very rich didn't escape paying taxes by taking IRS deductions—the [tax is likely to surprise many Americans](#). Congress has dealt with the AMT in the past by passing temporary solutions that raise the amount of income exempt from the tax. But without action this year—be it a full repeal or another temporary fix—the tax will start to hit taxpayers' wallets.

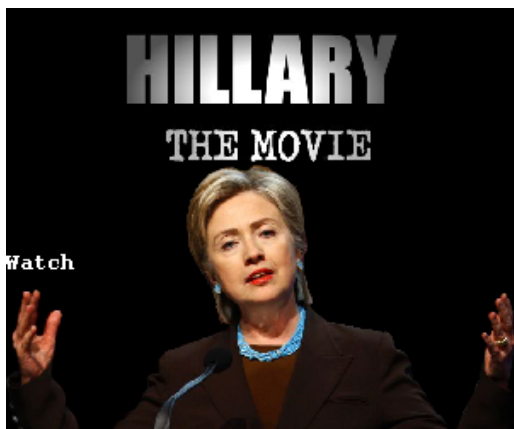
HUMAN EVENTS sat down with Sen. Mike Crapo (R.-Idaho), a co-sponsor of the [Alternative Minimum Tax Repeal Act of 2005](#) (S 1103), which was introduced by Sen. Max Baucus (D.-Mont.), ranking member on the Senate Finance Committee. Crapo addressed the serious implications of the AMT and exactly why he supports its repeal.

Why does the Alternative Minimum Tax pose such a threat to middle-class Americans?

Sen. Mike Crapo (R.-Idaho): As you know, the AMT was initially enacted because there are some taxpayers who made more than \$200,000 about 30 years ago. There were 155 individuals who made more than \$200,000 and didn't pay any tax, so the idea from its

inception was to make sure those with high incomes—and \$200,000 about 30 years ago was a sizeable income—paid tax.

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The problem that we face, regardless if one thinks that was good policy or not, is that the way it was set up it was not indexed to inflation. Over the last 30 years, as the dollar has deflated in terms of its purchasing power, the impact of this tax moves down the code.

For example, in 2003, 56% of the AMT taxpayers had income exceeding \$200,000. And 35% had income between \$100,000 and \$200,000. And 9% had income of less than \$100,000. In 2010, just seven years later, and we're three years from that time, only 10% of the AMT taxpayers will have income over \$200,000. That means 37% will have income between \$100,000 and \$200,000, and 53% will have income of less than \$100,000.

What's happening is the impact of the AMT is shifting rapidly away from higher-income categories, down through the upper-middle-income categories to the lower-middle-income categories. The impact is dramatic. When the tax does apply, the average cost of that is several thousand dollars of new tax. And that's growing. Add to that the complexity of trying to figure out if you have to pay the AMT—that cost of compliance has to be added into the cost of the tax. I don't think I've seen any dollar signs on that, but it takes something like 63 hours on average to calculate your AMT liability, according to the IRS. So you're adding a massive new compliance cost and a massive new tax to the middle-income taxpayers.

A full repeal of the AMT would have a massive impact on our tax system. How do you make up for the income that's currently coming in when you fully repeal the AMT?

Crapo: That's right. I think the total AMT repeal is something like \$600 billion over 10 years. There are different options. Your question is a good one: How do we account for \$600 billion in revenue over 10 years? There are only three ways to deal with it.

1. Increase taxes elsewhere, which I don't think is good policy.
2. The other is to cut spending.
3. And the last is to generate a more vibrant economy, and generate more revenue

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Opposition Mounts to

under the existing tax code. That, I do believe, can be done in a significant way. Simply eliminating the AMT would stimulate the economy.

The bottom line is this: It's not easy. We have a problem here that is growing, almost exponentially. There are projections that the amount of revenue generated by the AMT will ultimately exceed the amount of revenue generated by the rest of the Internal Revenue Code. We have to make a policy decision at some point. And I believe the sooner we make it, the better. Every year we don't make it that cost goes up.

Do you think the issue of AMT repeal should be taking place in the larger context of comprehensive tax reform?

Crapo: Yes, I do, because that is where the tax is. In other words, the larger debate of comprehensive tax reform relates to whether we should dramatically overhaul the Internal Revenue Code, or if we should replace the Internal Revenue Code with some other type of tax structure.

In that context, you obviously have to deal with the AMT. I do not believe that repeal of the AMT should be held back—or we can wait to deal with the AMT—until we deal with all of the rest of the broader tax code debates. This issue is getting more expensive every year and having a greater impact on middle-income Americans every year.

We have to deal with it, and we should not tie it to some other issue that will slow down the ultimate resolution of this. In fact, it will probably be a foundation for what other reforms we are able to ultimately achieve.

I believe Sen. [Chuck] Grassley was the one who said he didn't want to kick the can down the road another year in dealing with this. As you know, that's what Congress has done in years past. Do you think something can get done this year, given that you have Majority Leader [Bill] Frist as a co-sponsor and that it's a bipartisan bill?

Crapo: We do have a bipartisan bill. I believe something can be done. One caveat, though, in candor has to be put on the table. Hurricane Katrina has thrown a wrench into all of the deliberations related to the budget, whether they are on the spending side, on the entitlement-reform side, or on the tax-reform policy side. That's just a political reality that may make it more difficult to accomplish the reforms this year.

But, as I said earlier, this is a very expensive reform. And in no year will it be more expensive than this year. We should get to it this year, but because of the size of it, in all honesty, it's going to be tough haul, especially with Hurricane Katrina.

Do you know if President Bush's tax-reform advisory panel will take up repeal of the AMT?

Crapo: We don't know exactly what they're going to recommend, but they have been giving some signals. We expect that they will recommend eliminating the AMT. The question is whether they will be unanimous in how to do it.

I personally expect that some members of the panel will say totally eliminate it, just as is proposed in the bill that I've co-sponsored. There may be others, however, who have a proposal to do some kind of indexing, so that it catches up to what it was originally

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intended to be. Or they will put an exemption for everyone who makes less than \$200,000, and then it will only apply for people who make more than \$200,000. Or there are ways to adjust the preferences, so that the things that trigger the AMT are adjusted or eliminated or replaced or changed.

There are a lot of ways to deal with it, but in my opinion, the only way to squarely deal with it in a permanent way, is to eliminate it.

[Americans for Tax Reform President] Grover Norquist suggested in an article in *The Hill* that Republicans would be doing Democrats a favor by repealing the AMT because it disproportionately impacts people living in blue states. He made it seem that Democrats should offer Republicans something in return. Do you share that opinion?

Crapo: First of all, I didn't know that it disproportionately impacts people in blue states. That doesn't intuitively make sense to me because people from all different income levels live in blue and red states. And given the statistics I've just told you about, where this tax is headed, I think it's headed pretty evenly toward people living in most states. I'm not sure that would be an argument that would pull Democrats toward supporting the bill, or if the Republicans should ask for something more.

I think that ultimately, the bottom line here is, regardless whether the impact is in one area of the country more than others, the reality is that in just a few short years, it's going to be so massively impacting people in all parts of the country that the political pressure should be there to get some action on it.

Mr. Bluey, a contributing editor to Human Events, is director of the Center for Media & Public Policy at The Heritage Foundation. He maintains a blog at RobertBluey.com.



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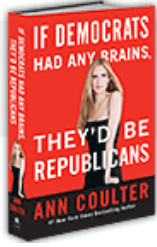
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