The AMT is coming after you.

Congress passed the AMT, or alternative minimum tax, in 1969 to crack down on 155 super-rich people who had escaped paying taxes. But in the next few years, it will ensnare millions in the middle class and perhaps roil the nation's politics.

This year nearly 4 million taxpayers are being hit by the AMT, but that number will soar to 20.5 million taxpayers next year and 51.3 million, or 45 percent of all taxpayers, by 2015, according to the Treasury Department.

In the process, President Bush's tax cuts will appear less generous as the AMT bite increases.

Its critics call the AMT a stealth tax increase. And it is a nothing short of a political time bomb, likely to spark taxpayer anger as it reaches deeper into Americans' pocketbooks. In the past, because the alternative minimum tax disallows state and local tax deductions, it hit people in the so-called blue Democratic industrial states the hardest. In the future, residents of the "red" Republican states will become increasingly subject to the AMT, tax experts said.

"It was never intended to hit middle-income people," said Sen. Charles Grassley, R-Iowa, chairman of the Senate Finance Committee. "And now it is going to devastate the middle-income taxpayers of America if we don't repeal it."

Efforts to repeal or overhaul it are under way, but not before its tentacles touch many more people. And if it is abolished, other taxes probably will have to be raised by a 10-year total of $1.2 trillion to make up for the projected lost revenue, according to the president's tax reform panel.

In 2004, the AMT took in $15 billion. By 2015, the Treasury Department says it will raise $210 billion in revenue.

The AMT's reach already has expanded well beyond its original intended targets. It came after schoolteacher and church organist Kim Palermo-Bogardus of
Greenport, N.Y., in 2001 when she discovered that, after filing separately from her husband, she owed an additional $584 to the IRS, and then another $101 in 2002.

"I was so mad when I found out I had to pay the so-called millionaires' tax," she said.

It came after 63-year-old Darla Worton of Indianapolis after she won an age-discrimination settlement from Ameritech. After seeing more than 40 percent of her settlement go to regular taxes and attorneys' fees, Worton, an office worker and part-time waitress, said her accountant shocked her by saying she owed several thousand dollars more, thanks to the AMT.

"Sometimes I wonder if I really did `win' the lawsuit," she wrote to the president's tax reform panel. "This tax is so unfair to someone like me who works three-four jobs just to have a nice life."

Originally aimed at stopping the wealthy from avoiding taxes by using too many deductions and tax shelters, the highly complex AMT requires that many taxpayers calculate their income taxes twice. First they figure their regular income tax by adding up their income and subtracting their deductions and then they do it again by using the AMT's rules. Then they pay the higher amount, which is often the AMT.

The levy comes into play mostly for high-income people with substantial deductions, such as personal exemptions for children, state and local income taxes, property taxes and miscellaneous deductions.

Under the AMT, those deductions no longer count. They must be added to income. After a standard AMT deduction of $58,000 for couples and $40,250 for individuals is applied, it imposes a flat 26 percent tax on income under $175,000 and a 28 percent rate over that amount.

Because neither the two tax brackets nor the exemptions are indexed for inflation, more and more people will be subject to the tax as their incomes grow over time, tax experts said. By 2011, the Treasury Department said, more Americans earning $50,000 to $100,000 will pay the tax than will taxpayers exceeding $500,000 in income.

Grassley said AMT stands for "absolutely maddening tax," and tax expert Leonard Burman of the Urban Institute compares it with a sci-fi movie creature, the Blob, capable of smothering everything. Joanna Veirs, a tax planner in Louisville, Ky., noted that the AMT works against many Bush administration goals of trying to promote families, home ownership and charities by denying deductions in those areas. In fact, Palermo-Bogardus said she has cut back on
her charitable giving.

Bush's tax reform panel, which will finish its report to the Treasury Department at the end of September, already has said it would like to abolish the AMT. Former Sen. Connie Mack, R-Fla., the panel's co-chairman, said he thinks the president will follow its recommendation, though he isn't sure.

In an interview, Mack called the AMT "an egregious tax" and added, "It's an indication of the unintended consequences of good intentions." And, he said, the tax should be repealed in the name of simplicity. "Having a dual tax does not meet that objective," he said.

Grassley in an interview also supported repeal and agreed with Mack that the law has lost much of its original intent.

"Very wealthy people have found ways not only of getting out of the regular income tax, they are finding ways of getting out of the alternative minimum tax," the senator said.

Grassley and Mack disagree sharply on whether other taxes should be raised if the AMT is eliminated. Mack said he has no choice but to recommend that other taxes be increased to offset the projected revenue loss, but Grassley said he opposed such a step. That could make abolition harder to pass, he said.

"Everybody hides behind having an offset," Grassley said. "Just think of how idiotic it is to have an offset to income that was never intended to come in in the first place. It's just ridiculous. It fails the test of common sense."

But if there is no corresponding tax increase to replace the AMT, the budget deficit over the next 10 years would expand, said Burman, adding that it is "kind of reckless" not to raise other taxes to make up for any loss of AMT revenue if the tax is repealed.

Grassley said residents of the "blue" industrial states indeed are paying a greater share of AMT taxes now, because they have higher state and local taxes and higher income. "You'd think it would be a no-brainer that we'd have every Democrat voting for this," the senator said. On the committee, he said, Democratic Sens. Ron Wyden of Oregon and Max Baucus of Montana favor repeal.

If comments sent to the tax reform panel are any indication, the AMT is highly unpopular.

Dan Taylor, who lives in Flossmoor in Chicago's south suburbs, described how he and his wife were slapped with a $438,000 AMT bill after he exercised incentive stock options in 2000. At the time, his high-tech company, GeoTel,
had been taken over by Cisco Systems, so he was able to buy Cisco stock cheaply through his options.

But he did not immediately sell those shares, taking the advice of a tax adviser to hold them so he could take advantage of the more favorable long-term capital gains tax. Then the stock plummeted in value when the high-tech bubble burst, and Taylor never was able to profit from his options.

He was stunned to learn that he had such a huge tax liability from the AMT, because the law provides that the tax is to be imposed when options are exercised, not when they are sold. So he had a large "phantom" profit.

Taylor, who now works for a telecommunications company, said he is dipping into the last of his retirement savings to pay off the Internal Revenue Service, and he and his wife may have to sell their house. His son quit a four-year college to go to a cheaper junior college. His monthly tax bill is more than $14,000.

"What I have learned from this is that bad laws get written, and then we the people can be streamrollered by these laws," Taylor said.

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