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## THE ALTERNATIVE MINIMUM TAX, THE PRESIDENT'S BUDGET, AND THE CONGRESSIONAL BUDGET RESOLUTIONS

By Richard Kogan and Aviva Aron-Dine

This week, the House of Representatives will consider the budget resolution that the House Budget Committee approved March 22. The House Budget Committee plan adheres to the Pay-As-You-Go (PAYGO) budget rules that have been in force in the House since January. These rules require that the cost of any legislation that increases entitlement spending or reduces revenue be offset. Consistent with this, the House Budget Committee plan assumes mandatory spending and revenue levels through 2012 equal to those that the Congressional Budget Office projects would result under current law. That is, the resolution assumes that all departures from current law in the form of tax cuts or entitlement expansions will be paid for.<sup>1</sup>

Some observers have criticized this aspect of the budget resolution as disingenuous. In particular, they have criticized the resolution for omitting the costs of providing Alternative Minimum Tax relief, which Congress is almost certain to enact in some form. They have compared this feature of the House Budget Committee plan to the omission of AMT costs for years after 2007 from the President's budget. (The President's budget includes a one-year AMT fix, but shows no costs for AMT relief beyond that.)

We believe this criticism of the House Budget Committee plan is misguided and that there are important differences between the treatment of AMT costs by the House and the President.

**The House Budget Committee plan reflects a consistent commitment to PAYGO:** *no* tax cuts and *no* increases in entitlements are exempt.<sup>2</sup> Moreover, as noted above, the House adopted the PAYGO rule in January and, thus far, has abided by it (for instance, offsetting the costs of reductions in student loan interest rates).<sup>3</sup> Whether the House will continue to adhere to PAYGO

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<sup>1</sup> The resolution includes several deficit-neutral "reserve funds." These would allow Congress to pay for tax cuts with *either* revenue increases or entitlement cuts, and to pay for specified entitlement changes with *either* entitlement cuts or revenue increases. Thus, under the resolution, Congress could increase entitlement spending or decrease revenues relative to the levels that CBO projects would result under current law, but only if these changes were offset.

<sup>2</sup> The resolution calls for AMT relief for the middle class, financed by "reforms within the internal revenue code."

<sup>3</sup> On March 14, the House passed H.R. 1309, the Freedom of Information Act Amendments of 2007. As reported by the Committee on Oversight and Government Reform, the bill would have increased direct spending by \$63 million and reduced revenues from fees by \$10 million over the 2008 – 2017 period, thus violating the House pay-as-you-go rule. The version of the bill presented to and passed by the full House, however, was amended to eliminate the increase in direct spending and the reduction in revenues, and did not violate the pay-as-you-go rule.

as increasingly tough choices need to be made is an open question. But the Budget Committee members should be commended, not criticized, for committing their colleagues to doing so.

The President's budget, in contrast, proposes a five-year total of close to \$500 billion in unpaid-for tax cuts, including an unpaid-for one-year extension of Alternative Minimum Tax relief. The Administration has consistently opposed applying PAYGO rules to tax cuts. (And, over the past six years, the President has signed into law six years-worth of unpaid-for AMT relief.) Thus, the Administration's insistence that the costs of AMT relief are not accounted for in the budget because *AMT relief* should be deficit neutral is anomalous both in relation to the rest of its budget and in relation to the Administration's record on taxes.

Moreover, the Administration's budget does not simply omit the costs of continuing AMT relief beyond 2007. Rather, it estimates the cost of the President's *other tax proposals* based on the assumption that the *AMT is left unchanged*. The President's budget reports that making the 2001 and 2003 tax cuts permanent, which it proposes to do, would cost \$1.7 trillion through 2017. But that figure reflects the assumption that the AMT takes back about a quarter of the value of the President's tax cuts. If the costs of the President's tax cuts are estimated under the assumption that the AMT will be reformed, that cost is substantially higher. Thus, while the Administration has claimed that its budget assumes a deficit-neutral AMT fix, its cost estimates for other tax proposals assume an *unreformed* AMT.<sup>4</sup>

**House leaders have committed themselves to offering a deficit-neutral proposal for permanent AMT reform.** As House Budget Committee members who are also members of the House Ways and Means Committee explained to their colleagues during a Ways and Means Committee hearing last week, the House Budget Committee budget resolution essentially delegates to the Ways and Means Committee the responsibility to come up with a deficit-neutral AMT reform proposal. This is something that Ways and Means Committee Chairman Charles Rangel and Representative Richard Neal, Chairman of the Ways and Means Subcommittee on Select Revenue Measures, have already committed themselves to doing. Neal has discussed various possible approaches to paying for a permanent reform proposal, which he has said he will offer soon.<sup>5</sup> When asked whether AMT relief should be exempt from PAYGO, Rangel responded, "No way... I'm going to have offsets."<sup>6</sup>

In contrast, the Administration has for six years declined to offer a proposal for permanent AMT reform. While members of the Administration have said that AMT reform should be dealt with as part of comprehensive, revenue-neutral tax reform, discussion of tax reform — or of the report of the President's Advisory Panel on Tax Reform — was conspicuously absent from the President's budget.

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<sup>4</sup> See Aviva Aron-Dine and Robert Greenstein, "Why the Cost of AMT Relief Should Be Included in Estimates of the Cost of the President's Tax Cuts," Center on Budget and Policy Priorities, revised February 20, 2007, <http://www.cbpp.org/2-6-07tax.htm>.

<sup>5</sup> Wesley Elmore, "Neal Looks at Tax Rates to Pay for AMT Reform," *Tax Notes*, March 23, 2007.

<sup>6</sup> Reported in Lee A. Sheppard, "Rangel Vows to Find Offsets for AMT Reform," *Tax Notes*, February 27, 2007.

## **The Senate Budget Resolution**

The budget resolution adopted by the Senate Budget Committee on March 15 was, like the House Budget Committee resolution, consistent with PAYGO, and it assumed that the costs of any tax cuts, including AMT relief, would be offset. During floor debate on the budget resolution, however, the Senate adopted an amendment offered by Senator Max Baucus that reduced the revenue levels in the budget resolution to accommodate several popular tax-cut measures. The amendment did *not* exempt these measures from the PAYGO rule included in the Senate budget resolution, but it did render the resolution itself inconsistent with PAYGO.

The Baucus Amendment underscores the real challenge Congress will face: adhering in practice to the PAYGO discipline it has now accepted in principle. AMT reform will be just one of many policy areas that will test this commitment.