

The Alternative Minimum Tax: Choices for 2007

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Basics of AMT

- Pay AMT if higher than regular tax
 - Lower tax at each level of taxable income
 - Higher taxable income (deductions denied)
- 3.5 million on AMT in 2006
- 23 million scheduled to be on AMT in 2007
 - Middle-class: large families, high state taxes
 - “Patch” expired at end of 2006

Choices in 2007

- Extend patch to prevent spread of AMT
- One-year extension costs \$40 billion
- Long-term extension (w/ indexation) costs \$500 billion
 - \$900 billion if 2001 tax cuts extended

Choices in 2007

- Long-term budget-neutral fix desirable
 - Repeal AMT, broaden regular tax base
- President likely to propose one-year patch extension without offset
- Congress likely to pass one-year patch extension with offsets
 - House pay-go rule requires \$40 billion offset in fiscal 2007-2012

Finding offsets

- Taxes on domestic oil and gas production
- Taxes on American firms operating abroad
- Improved tax compliance (“close tax gap”)
- Old revenue raisers

Tougher task in 2008

- Another round of offsets required
- Roll back part of 2001 tax cuts?