

Options to Fix the Alternative Minimum Tax

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Five questions

- Repeal or reform?
- Pay for today?
- Broaden base or raise rates?
- Are some fixes worse than status quo?
- What if no solution found in 2007?

Repeal, don't reform

- Existence of AMT as parallel tax system is the problem
- Second income tax undesirable
- AMT design is flawed
 - Base broadening ill-chosen
 - Marginal rates comparable to regular tax

Reform options (9 through 23) fall short

- Don't address most of AMT's flaws
- Do reduce number of people on system
 - Greatly reduce complexity
 - But, reduce distortions only modestly
 - And, weaken political support for repeal
- Revenue loss still large

Pay for AMT relief today

- Only choices are to pay today or tomorrow
- Fiscal burden awaiting future generations is *not* smaller than “intended”
- \$800 billion offsets needed
 - Tax-cut extension will cost \$500 billion more

Some options ruled out

- Some can't yield the money
 - Tax gap
- Some politically infeasible, as AMT offsets
 - Entitlement cuts
 - Carbon, gas taxes

Avoid rate increases

- Magnify current system's distortions
- Rate increases at top most harmful
- Raising capital gains, dividend rates brings back double tax on corporate income

Base broadening better

- Employer-provided health insurance
- Owner-occupied housing
- Municipal bond interest
 - Transition relief may limit revenue pickup
- State and local tax deduction
 - “Obvious” offset for AMT
 - Treatment of firm-level taxes difficult

Evaluating options

- Complicating factors
 - Odd timing of baseline
 - Odd distribution of AMT
- Best options are 4 and 5

Fixes worse than status quo

- Not paid for today
- Financed by raising marginal rates
- Leave AMT in place

If no reform, extend patch?

- Any extension should be paid for, without raising rates
- But, even at best, patch leaves AMT in place, avoids dealing with problem