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## AMT Patch Bill Disguises a Tax Hike, Again

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There they go again. The House of Representatives passed another huge tax increase. Earlier in the year they passed a big, economically harmful tax hike attached to a bill expanding veterans' benefits. This time, they married a big tax hike to a bill extending the Alternative Minimum Tax (AMT) patch for 2009.<sup>1</sup> They tried this tax hike ruse earlier in the year when they belatedly enacted the 2008 AMT patch. That time, the Senate wisely refused to play along and taxpayers were spared. The House was wrong the last time; they are wrong this time, too, and again the Senate should just say no.

Some Members of Congress continue to try sell a faux fiscally responsibility story to justify their taxing ways. Fiscal responsibility would be a welcome change after so many massive, bipartisan bursts of new federal spending, but that is not what is demonstrated in the AMT legislation. This is a tax increase on one group to avoid raising taxes on prospective AMT victims.

If liberals in Congress want to raise taxes—as Senator Barack Obama (D-Ill.), the presumptive Democratic presidential nominee, has indicated he intends to do by hundreds of billions of dollars a year—then they should just say so. Why hide behind the AMT patch ruse? More than that, as legislators they should put their words into action by moving clearly specified tax hike legislation so the American people can see plainly what they intend. No doubt American voters would appreciate such candor and would cast their ballots this November based on this clearer picture of intentions. Attempting to raise taxes behind an AMT patch façade is not the way to gain the trust of voters.

**Revealing Tax Hike Camouflage.** Congress should be looking to cut taxes as the economy wobbles and as the level of tax collections as the share of gross domestic product again edges above the historical average. And if pro-growth tax cuts were the issue, then there would at least be a respectable logical consistency to argue fiscal discipline requires that tax cuts be offset (or “paid for”) with a tax increase or, better yet, spending reductions. With Congress showing no restraint on spending—witness the recent farm bill and the recent war funding bill larded up with billions in unpaid-for domestic spending—the clanging calls for fiscal discipline ring sadly hollow. Even so, there would at least be an argument to make if Congress were considering a tax cut. But extending the AMT patch is not a tax cut.

If the patch is allowed to expire at the end of 2008, millions of Americans would face a substantial tax increase. Extending the patch prevents that tax increase, as members from both parties have said repeatedly. The issue is quite simple: even in Washington, preventing a tax hike is not a tax cut. The absence of sin is not virtue. And, since extending the AMT patch is not a tax cut, there is no valid argument that it should be paid for.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Taxes/wm1968.cfm](http://www.heritage.org/Research/Taxes/wm1968.cfm)

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**CBO Is Complicit in the Tax Hike Ruse.** Unfortunately, the AMT tax hike ruse is aided and abetted by a serious flaw in the long-standing methodology the Congressional Budget Office (CBO) uses to construct its revenue baseline. By definition, a tax cut is a reduction in tax relative to some expected level of receipts as shown in a baseline projection. The construction of the baseline, then, is central to the issue. The CBO revenue baseline reflects one guiding principle, whereas the CBO spending baseline reflects an entirely different and correct principle.

The revenue baseline reflects current law, so when a tax cut provision expires, such as the AMT patch, then the baseline level of revenues jumps up. Thus, extending the patch lowers the projected level of receipts and is errantly shown as a tax cut.

In contrast, CBO's spending baseline reflects current policy, even when the statute governing current policy expires. Consider, for example, the recent farm bill. The farm program is authorized for a few years at a time. When the program expires, does spending in the CBO baseline fall? No. The CBO spending baseline assumes Congress will reautho-

rize the program and so the spending baseline is held steady. This difference in the construction of the revenue and spending baselines is unjustified, unfair, and just plain wrong.<sup>2</sup> Fortunately, all that is required to correct it is for the CBO to recognize its error and fix the revenue baseline.

**Faux Fiscal Discipline.** The House of Representatives is trying once again to disguise their tax increasing proclivities under a cloak of faux fiscal discipline. The vehicle for this deception is the extension of the AMT patch. The patch should be extended for 2009 and for 2010. There is a strong, bipartisan consensus that allowing the patch to expire would cause a massive and unfair tax hike on millions of Americans. But falsely raising the flag of fiscal discipline as an excuse to raise taxes is wrong. The Senate and the President should stand firm against this ploy and remain firmly opposed to raising taxes.

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1. The AMT is a parallel income tax intended to strike at the rich but increasingly reaches down into the middle class. It has a somewhat broader base than the regular income tax, a top rate of 28 percent, and a large basic exemption amount of \$45,000 for a married couple. The AMT patch is a bump up in the basic exemption amount designed to keep the AMT at bay. Taxpayers pay whichever tax generates the higher liability.
2. For a more complete discussion of the tax increase/baseline issue, see J. D. Foster, "Making Good Policy Out of a Bad AMT," Heritage Foundation *Background* No. 2082, October 31, 2007, at [www.heritage.org/Research/Taxes/bg2082.cfm](http://www.heritage.org/Research/Taxes/bg2082.cfm), and J.D. Foster, "AMT Fix Becomes Massive Tax Hike Via Misleading CBO Baselines," Heritage Foundation *WebMemo* No. 1695, November 7, 2007, at [www.heritage.org/Research/Taxes/wm1695.cfm](http://www.heritage.org/Research/Taxes/wm1695.cfm).