



## H.R. 6275 – Alternative Minimum Tax Relief Act of 2008

### EXECUTIVE SUMMARY

The House is expected to consider H.R. 6275 under a closed rule on June 25, 2008. The legislation was introduced by Representative Charles Rangel (D-NY) and was reported from the Committee on Ways and Means by a party line vote of 22 to 16 on June 20, 2008.

The Alternative Minimum Tax (AMT) was created in 1969 to ensure that higher-income individuals and families did not utilize the tax code to unfairly avoid tax liability. It serves as a companion tax to the regular income tax. The AMT rates and exemptions, however, have never been properly indexed for inflation, resulting in more and more middle-income earners becoming subject to the AMT – more than 25 million American taxpayers are expected to be impacted by the AMT in 2008.

H.R. 6275 includes a one year patch for the AMT by increasing the AMT threshold to \$46,200 for individuals and \$69,950 for married couples for tax year 2008. Although Ways and Means Republicans say in their dissenting views, “Congress should not have to raise taxes to prevent tax increases,” Democrats have included several tax increases in the bill to offset the one year patch of the AMT. These revenue raising provisions include increasing taxes paid on carried interest, denying manufacturing deductions for certain oil companies, limiting treaty benefits, and additional reporting requirements on credit card companies.

The Joint Committee on Taxation (JCT) estimates that increasing the AMT threshold for one year will cost \$61.522 billion over the 2008 to 2018 period and that the tax increases included in the bill will increase revenues by \$61.59 billion over that same period. Overall, H.R. 6275 would increase revenues by \$158 million over five years and \$68 million over ten years.

On June 24, 2008, the Administration **issued a veto threat** for the bill because “the Administration is concerned about the provisions included in H.R. 6275 that would increase burdens on American taxpayers. The Administration does not believe that the appropriate way to protect the 26 million Americans from higher 2008 AMT liability – including 22 million that would be newly exposed to the AMT – is to impose a tax increase on other taxpayers.”

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### FLOOR SITUATION

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H.R. 6275 is being considered on the floor under a closed rule. The Rule:

- Provides one hour of debate equally divided and controlled by the Chairman and the ranking minority member of the Committee on Ways and Means.
- Waives all points of order against consideration of the bill except those arising under clause 9 (earmarks) or 10 (PAYGO) of rule XXI.
- Provides that the amendment in the nature of a substitute recommended by the Committee on Ways and Means now printed in the bill shall be considered as adopted and the bill, as amended, shall be considered as read.
- Waives all points of order against provisions of the bill, as amended. This waiver does not affect the point of order available under clause 9 of rule XXI (regarding earmark disclosure).



- Provides one motion to recommit with or without instructions.

This legislation was introduced by Representative Charles Rangel (D-NY) on June 17, 2008. The bill was ordered to be reported, as amended, by a party line vote of 22 - 16, by the Committee on Ways and Means on June 20, 2008.

H.R. 6275 is expected to be considered on the floor of the House of Representatives on June 25, 2008.

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## BACKGROUND

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The Alternative Minimum Tax (AMT) was created in 1969 to ensure that higher-income individuals and families did not utilize the tax code to unfairly avoid tax liability. It serves as a companion tax to the regular income tax. The AMT rates and exemptions, however, have never been properly indexed for inflation, resulting in more and more middle-income earners becoming subject to the AMT.

According to the Congressional Research Service, the AMT impacted fewer than 20,000 taxpayers when first implemented. In 2006, it applied to roughly 4.2 million taxpayers and is projected to affect over 25 million in 2008 unless it is addressed.

The Tax Reform Act of 1986 substantially changed the AMT by increasing the tax rate to 21%, changing the basic exemption amount, broadening the tax base, and revamping the AMT credit. It also introduced a phase-out of the AMT exemption amount for taxpayers whose AMT taxable income exceeded certain limits.

Since 1998, the AMT has been mitigated through temporary provisions allowing certain personal tax credits to offset AMT liability and temporary increases in the basic exemption for the AMT. Congress last enacted a one year AMT "patch" as part of the Tax Technical Corrections Act of 2007 (P.L. 110-172), which passed the House without objection on December 19, 2007.

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## SUMMARY

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Increasing the AMT Threshold: H.R. 6275 raises the alternative minimum income threshold above which taxpayers may be subject to the Alternative Minimum Tax (AMT). The amount of income a taxpayer can make and still be exempt from the AMT is increased from the base of \$33,750 to \$46,200 for individuals in 2008 and is increased from \$45,000 to \$69,950 for couples that file a joint tax return in 2008. The bill will also extend the AMT relief for nonrefundable personal credits for one year through taxable year 2008.

Increasing Taxes Paid on Carried Interest: The bill establishes new rules that will increase the taxes paid on *carried interest*, which is a tax levied on investment partnerships. The bill would require these partnerships to treat carried interest as ordinary income (taxed at 35%) as opposed to current law that treats carried interest as capital gains (taxed at 15%). *The Joint Committee on Taxation (JCT) estimates that enacting this provision would increase taxes by \$31 billion over the 2008-2018 period.*

Denial of Manufacturing Deductions for Certain Oil Companies: The bill would limit aspects of the manufacturing deduction (section 199 of the tax code) for exploration, production and refining of oil and natural gas, which was created in 2004 to help encourage the preservation and expansion of manufacturing jobs in the United States. Specifically, the provision would repeal the ability of the biggest oil companies to claim the deduction and prevent smaller oil and gas companies from getting the full benefit of the deduction. *The JCT estimates that this provision will increase taxes by \$13.57 billion over 10 years.*



*Note: According to Committee Republicans, the bill would not treat all oil and gas producers the same. The U.S. operations of Venezuela-owned Citgo would face a smaller tax increase than many U.S. based companies. The House voted on similar versions of this provision 4 times previously during consideration of H.R. 6, H.R. 2776, and H.R. 5351.*

Limitation on Treaty Benefits: Under current law, when U.S. subsidiaries of foreign companies pay rents, royalties, or interest to a related foreign company, a 30% tax is imposed through withholding. Under the terms of 58 tax treaties with 66 other countries, the 30% rate can be reduced or eliminated. The provision would apply a higher withholding rate on such payments if the parent company of the foreign company is located in a non-treaty country with a higher withholding rate. *The JCT estimates that this provision would increase taxes by \$6.9 billion over the 2009 to 2018 period.*

Credit Card Reporting Requirement: H.R. 6275 requires banks and third party settlement organizations to provide the Internal Revenue Service (IRS) the name, address, and Taxpayer Identification Number (TIN) of each participating merchant and the gross amount of reportable transactions that the bank or settlement organization has made to each merchant. *The JCT estimates that this provision would increase taxes by \$9.8 billion over the 2011 to 2018 period.*

Continuous Levy to Property Sold or Leased to the Federal Government: Under current law, the IRS can impose a 100 percent levy of Federal payments to vendors of goods or services with delinquent tax liability. H.R. 6275 expands the items the IRS can impose the levy on to Federal payments for all property and services. *JCT estimates that this provision would increase taxes by \$0.3 billion over the 2008 to 2018 period.*

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## COST

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The Joint Committee on Taxation (JCT) estimates that increasing the AMT threshold for one year will cost \$61.522 billion over the 2008 to 2018 period and that the tax increases included in the bill will increase revenues by \$61.59 billion over that same period. Overall, H.R. 6275 would increase revenues by \$158 million over five years and \$68 million over ten years. ([JCT Estimate](#))

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## ADDITIONAL VIEWS

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Administration: According to the Statement of Administration Policy, **which does contain a veto threat**, "the Administration believes that it is imperative for Congress to act in a timely manner to protect 26 million Americans from an unwelcome tax increase, and not to repeat the unnecessary administrative complexity caused by congressional delay in 2007. This delay made it difficult for individuals to engage in appropriate tax planning and created extraordinary administrative challenges for the Internal Revenue Service. The Administration is concerned about the provisions included in H.R. 6275 that would increase burdens on American taxpayers. The Administration does not believe that the appropriate way to protect the 26 million Americans from higher 2008 AMT liability – including 22 million that would be newly exposed to the AMT – is to impose a tax increase on other taxpayers. The Administration urges Congress to reduce the risk of disruption to the 2009 tax filing season by eliminating tax increases from the bill."

Ways and Means Republicans: According to the Dissenting Views of the Committee Report, "we believe that Congress should not be in the business of raising taxes, generally, and it certainly should not be doing so to "pay for" extensions of current low-tax policies, such as the AMT patch. The Majority was wrong to propose tax increases to offset the AMT patch last year, they are wrong again now, and the end result in both cases will be the same: an extension of the current AMT patch to protect millions of Americans without any corresponding tax increases."



# LEGISLATIVE DIGEST

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