

The Frankenstein tax

by the St. Louis Post-Dispatch

Fiscal responsibility is such a bore. It's much more fun to cut taxes, spend billions and worry about the consequences later. That's why spendthrifts in the U.S. Senate are in a funk these days. Their colleagues on the other side of the Capitol are no fun any more.

Earlier this year, the new Democratic majority in the Congress approved so-called "PayGo" rules, as in pay-as-you-go. Any new spending plan would have to be offset by a spending cut or a tax increase. Any new tax cut would be matched by a spending cut or a tax increase.

It was an effort to reverse seven years of cut-and-spend fiscal folly under a supposedly fiscally conservative president and a Republican-controlled Congress. They plunged the federal budget into red ink and drove the national debt up to \$9 trillion - a 9 followed by 12 zeroes, which is \$30,000 for every American man, woman and child. They put a \$3 billion-a-week war on the national credit card.

Few people actually expected Democrats to take the PayGo pledge seriously. But at least in the House, on one key issue, the pledge is holding. The issue is the Alternative Minimum Tax, which one senator describes as a "Frankenstein monster" out to gobble up the middle class.

If you pay the AMT now, congratulations. Nearly everyone who paid the tax last year earned more than \$150,000. Clearly, this isn't a worry for widows and orphans.

In fact, the AMT originally was aimed at millionaires. When enacted in 1969, it was designed to snag very wealthy people with lots of clever deductions who were paying little federal income tax.

Unfortunately, Congress forgot to index the AMT for inflation. So it catches more people every year. When it started snagging members of the upper middle class a few years ago, Congress stepped in, passing an annual temporary fix that prevents more people from being snagged.

The House did that again this year. But because the temporary fix cuts revenues, the PayGo rules required the cut to be offset by \$80 billion in tax increases elsewhere. That included \$50 billion to pay for the AMT cuts and \$30 billion to pay for extending tax breaks for teachers, education costs and research.

President George W. Bush threatened a veto, and the tax-cut-and-spend crowd in the Senate rebelled. They want the AMT limited without any balancing tax increases or spending cuts. On Dec. 6, the Senate voted

down the House bill by vote of 48-46; 60 votes are need to close debate and ensure Senate passage.

Then the Senate passed its own AMT fix without any balancing tax increases, on an 88 to 5 vote, as even responsible senators caved in. But in the House, members of the "Blue Dog" caucus of moderate and conservative Democrats pledged to resist any AMT freeze that isn't offset by higher taxes or lower spending.

If Congress doesn't act this year, the AMT will snag 23 million families instead of the 4.3 million caught last year. Parents with lots of kids and other big deductions could pay the tax with incomes as low as \$75,000. The potential political repercussions make it likely that one way or the other, Congress will freeze the AMT. It should do so responsibly,

The AMT should be replaced by higher taxes on wealthy Americans - those who benefited most from the Bush tax cuts early in this decade. A particularly juicy target are hedge-fund managers with multimillion dollar incomes who pay special tax rates of 15 percent on their incomes while middle-class Americans pay 25 percent. That would bring the AMT debate full circle. The super wealthy, after all, were the people the tax was designed to catch.

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