

The easy way out

by *The San Diego Union-Tribune*

It has been at least a decade since tax experts began fretting about a 1969 law limiting the deductions that could be taken by very rich families who had figured out how to legally evade paying taxes. Congress was warned that because its income thresholds weren't indexed to inflation, the alternative minimum tax inevitably would hit the middle class as prosperity and inflation drove up pay.

Now that moment is at hand. With 2008 nearly upon us and the April 15 filing deadline not so far off, Congress finally has woken from its torpor.

Republicans appear ready to go along with a Democratic AMT "patch" that would keep the number of AMT payers at about 4 million by increasing the AMT exemption for individuals and families. But they have ruled out Democrats' call to replace the \$50 billion in revenue lost in the "patch" by forcing hedge fund managers to pay income taxes instead of capital gains taxes on their compensation, which is linked to hedge fund returns. Instead, Republicans said spending should be reduced by \$50 billion.

At least they used to. They now appear ready to go along with the patch without the cuts, and Democrats will go along with the patch without the tax hike, and both sides will say they had no choice but to add \$50 billion to the national credit card. Just great.

We far prefer spending cuts to tax hikes. But Republicans don't have much claim to the high ground. They never offered a serious list of program cuts to offset the lost revenue - the \$29 billion set aside for earmarks next year would be a good start. And their awful record of fiscal stewardship for the 12 years before Democrats took over Congress last year makes their tough rhetoric seem laughable.

So expect to see a bipartisan Congress "fix" the AMT by borrowing more money instead of controlling spending. It's the easy and expedient thing to do. And it's just how things work inside the Beltway. For worse or worse.

A final note: While we oppose the huge tax hike on hedge fund managers backed by Democrats, that is more out of leeriness over enacting policy without careful review and concern about singling out one small group to shoulder a broad load. The question of whether these managers' earnings should be taxed as income or capital gains is worth examining.

We are deeply averse to tax hikes out of a conviction that there are vast areas of federal spending that could be reduced with little or no effect on the public good. But that does not make us sympathetic to mass tax avoidance. Over the past decade, thanks both to sympathetic rulings from the IRS and to

ever-more-sophisticated strategies to hide income, a huge tax-avoidance industry has emerged, possibly costing the Treasury as much as \$300 billion annually.

This should be seen as outrageous. That's why if Congress ever wants to address the alternative minimum tax revenue-loss problem directly instead of enacting "patches," a hard look at the tax-avoidance industry would be a good place to start.

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