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The Best Alternative to the Alternative Minimum Tax: Repeal It Now!

Executive Summary

- Since its inception more than three decades ago, the Alternative Minimum Tax (AMT) has evolved from a requirement that the highest-income earners pay at least some taxes, into a parallel tax system that imposes excessive burdens on a growing number of taxpayers, including those with modest incomes.
- For the individual taxpayer, the AMT embodies the worst attributes of a tax system:
  - ➢ *It is unfair*. In 2005, slightly more than 1 percent of taxpayers with incomes between $50,000 and $100,000 will pay the AMT. Over the next 10 years, however, that percentage will explode to more than 60 percent. The AMT also disproportionately affects individuals living in high-tax areas, imposes substantial marriage penalties, and targets families with children.
  - ➢ *It is complex*. To determine their AMT liability, taxpayers must calculate their tax a second time, based on an entirely different set of rules from the regular income tax – with unique income-recognition rules, exemptions, deductions, applicable tax credits, and tax rates.
  - ➢ *It is not transparent*. Because taxpayers have difficulty determining when it applies, the AMT often comes as a complete surprise, resulting in substantial tax bills, including interest and penalties.
  - ➢ *It produces adverse economic consequences*. If current law remains unchanged, the AMT-dominated tax system will consume nearly 25 percent of the nation's Gross Domestic Product (GDP) by 2052, siphoning an increasing amount of capital from productive use in the market and constraining economic growth.
- The expanding reach of the AMT, ironically, makes the Republican goal of reforming the tax system harder to achieve, with the federal government relying increasingly on revenues from the AMT.
- To avoid this predicament, it is imperative that the AMT be repealed *before* its ballooning revenues become the baseline against which a new, revenue-neutral tax system is measured.

Introduction

At its inception in 1969, the individual Alternative Minimum Tax (AMT) was intended to address a report by the Treasury Department that 155 high-income Americans avoided paying any federal income taxes in 1966 through the aggressive use of tax deductions and other legal techniques for sheltering income.[1]

After more than 35 years, the AMT has become both a menace and a misnomer of the American income-tax system. It represents an unfair and oppressive tax burden on American taxpayers. Moreover, its name belies its effect. It is not an "alternative" to the income tax – it is a mandatory, parallel tax system with which taxpayers must comply.[2] And, it is not a "minimum" tax – Americans must pay the higher of their regular income tax or the AMT. In addition, it does not apply to the estimated 42 million tax filers who currently pay no income taxes as a result of the tax cuts enacted over the last four years.[3]

Today, the AMT represents an excessive tax burden for millions of Americans, and one that will grow exponentially if it remains unchecked.[4] That expansion, ironically, makes the Republican goal of reforming the tax system harder to achieve, with the federal government relying increasingly on revenues from the AMT. To ensure that a new tax system reduces the burdens on American taxpayers and continues the nation's economic expansion, and does so without the AMT's ballooning revenues, Congress should take a critical first step – repeal the AMT now.

A Rapidly Growing Burden for Individual Taxpayers

For the individual taxpayer, the AMT embodies the worst attributes of a tax system – it is unfair, inordinately complex, and not transparent (i.e., taxpayers have difficult determining when it applies).[5] In addition, it creates significant, adverse economic consequences for entrepreneurs and acts as a deterrent to overall economic growth.

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[1] Robert J. Carroll, Deputy Assistant Secretary for Tax Analysis, Department of Treasury, in testimony before the Senate Finance Subcommittee on Taxation and Internal Revenue Service (IRS) Oversight, May 23, 2005, p. 1 – http://finance.senate.gov/hearings/testimony/2005test/ctest052305.pdf.

[2] See Sections 55 through 59 of the Internal Revenue Code (26 U.S.C. §§ 55-59). For an overview of the individual AMT, see the Joint Committee on Taxation (JCT), "Present Law and Background Relating to the Individual Alternative Minimum Tax," JCX-37-05, May 20, 2005 – http://www.house.gov/jct/x-37-05.pdf.

[3] Patrick Fleenor and Scott A. Hodge, "Number of Americans Outside the Income Tax System Continues to Grow," *Fiscal Facts*, Tax Foundation, June 9, 2005 – http://www.taxfoundation.org/publications/show/542.html; Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, H.R. 1836, 107th Congress, 1st Session, Public Law 107-16, June 7, 2001; Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, H.R. 2, 108th Congress, 2d Session, Public Law 108-27, May 28, 2003; and Working Families Tax Relief Act (WFTRA) of 2004, H.R. 1308, 108th Congress, 2d Session, Public Law 108-311, October 4, 2004.

[4] While a corporate AMT also exists in the current tax code, this paper will focus on the individual AMT given its larger scope and effects on American taxpayers. Many of the problems and implications of the individual AMT, however, also apply the corporate version of the tax.

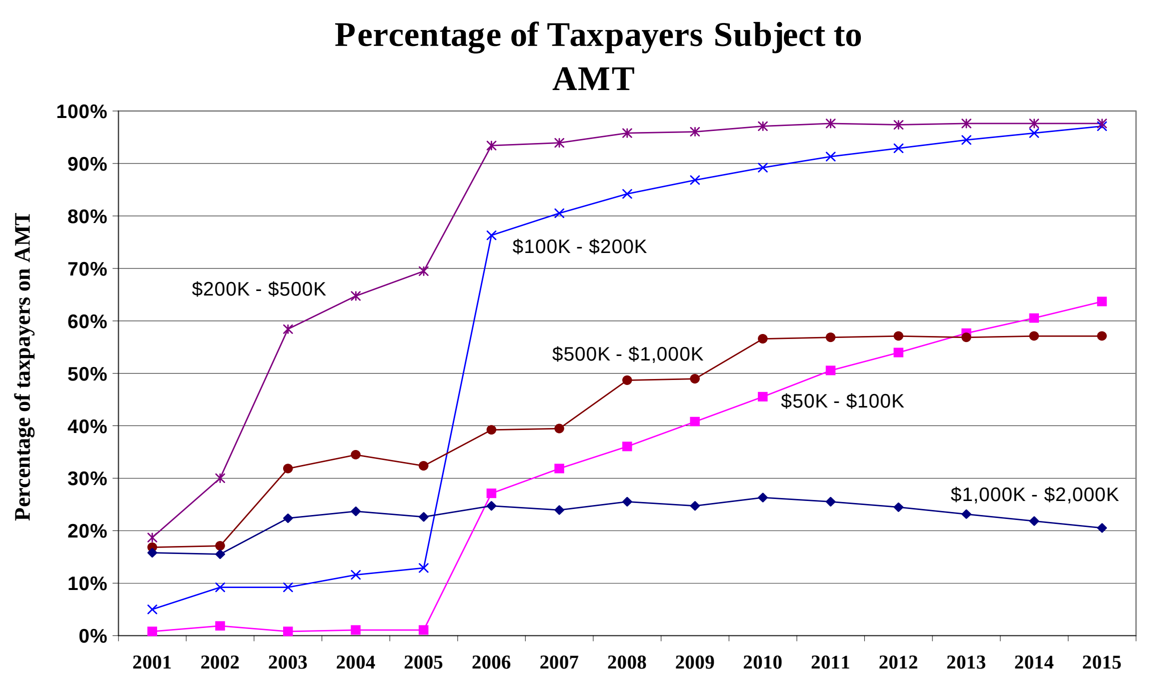
[5] See Lawrence A. Hunter and Stephen J. Entin, "A Framework for Tax Reform," Institute for Policy Innovation Center for Tax Analysis, *Issue Brief*, January 14, 2005 – www.ipi.org.

A Matter of Fairness

While the AMT was intended to prevent the highest-income earners from avoiding taxes, it now captures an increasing number of middle-income families. In 2005, an estimated 3.8 million taxpayers will be subject to the AMT. If current law remains unchanged, that number is projected to rise to 51.3 million Americans by 2015.[6]

More alarming is the fact that the AMT will increasingly apply to middle-income taxpayers over the next decade. As illustrated in Figure 1 below, slightly more than 1 percent of taxpayers with incomes between $50,000 and $100,000 will pay the AMT in 2005. Over the next 10 years, however, the percentage of taxpayers in that income range – hardly the highest-income earners in this country – will explode to more than 60 percent.[7] Moreover, taxpayers in the $100,000 to $200,000 range are the fastest-growing group affected by the AMT over the next 10 years, while the highest-income earners are generally not burdened by the AMT. High-income earners are generally in the 33-percent or 35-percent tax brackets under the regular income tax, resulting in a higher tax liability than under the AMT, which has a maximum 28-percent rate.[8]

Figure 1



Source: U.S. Department of Treasury, Office of Tax Analysis
Note: Assumes 2001 & 2003 tax cuts are made permanent and the increased AMT exemption amounts expire in 2005

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[6] Robert Carroll, Deputy Assistant Secretary for Tax Analysis, Department of Treasury, in a memorandum to Jeffrey Kupfer, Executive Director, President's Advisory Panel on Federal Tax Reform, March 7, 2005, p. 1.

[7] Carroll Finance Committee Testimony, p. 2; Douglas Holtz-Eakin, Director, Congressional Budget Office (CBO), in testimony before the Senate Finance Subcommittee on Taxation and IRS Oversight, May 23, 2005, p. 4 – http://finance.senate.gov/hearings/testimony/2005test/detest052305.pdf.

[8] Holtz-Eakin, p. 4.

The AMT's expansion is largely due to the lack of inflation adjustment with respect to its rate brackets and exemption amounts.[9] In the 2001 and 2003 tax bills, Congress tried to address this problem by enacting a so-called "patch," which increased the exemption amount to $40,250 for single taxpayers and $58,000 for married couples in tax years 2003 through 2005.[10] That patch, however, attempts to cover a hole that is increasing at an alarming rates. In fact, for the exemption amounts to maintain the AMT's application to the originally envisioned top-income earners, the original exemption amount of $30,000 in 1969 would have to be increased to $157,400 today in order to account for the effects of inflation over the past 35 years.[11]

Adding to the unfairness of the AMT is its arbitrary application to different types of taxpayers. For example, the AMT targets taxpayers largely based on where they choose to live. Because the AMT does not allow taxpayers to deduct their state and local taxes (e.g., income, real estate, and personal-property taxes), it applies disproportionately to individuals living in high-tax areas.[12] In fact, according to the Tax Foundation, taxpayers in California are seven and a half times more likely, and taxpayers in New York are ten times more likely, to be burdened by the AMT than are taxpayers in Tennessee.[13]

The AMT also imposes a significant marriage penalty. As noted above, the exemption amount for married couples in 2005 is $58,000, which is only 44 percent more than the exemption amount for a single person. Accordingly, a married couple subject to the AMT pays substantially more than would the two individuals were they not married. Making matters even worse, the AMT tax brackets have no adjustment for married couples – income exceeding the exemption amount is taxed at 26 percent under the AMT up to $175,000 and at 28 percent above that level, regardless of marital status.[14] As a result, a single person under the AMT with taxable income of $100,000 would be subject to a 26-percent marginal tax rate while a married couple with both spouses earning the same amount would be subject to a 28-percent marginal tax rate.

Additionally, the larger a taxpayer's family, the more likely the taxpayer is to be subject to the AMT.[15] As with state taxes, the AMT does not allow individuals to claim personal exemptions ($3,200 per person in 2005)[16] for themselves or their children.[17] As a result, a married couple with no children will lose $6,400 in deductions, while a family with three children will lose $16,000, which significantly increases that family's likelihood of being subject to the AMT.

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[9]Carroll Finance Committee Testimony, p. 2; Holtz-Eakin, p. 1.

[10]EGTRRA § 701and JGTRRA § 106. The increased exemption amounts were extended through 2005 under section 103 of WFTRA. These amounts, however, are gradually eliminated as an individual's income exceeds certain thresholds, increasing the effective AMT tax rate for a taxpayer who is subject to the exemption phase out. IRC § 55(d)(3).

[11]Nina E. Olson, National Taxpayer Advocate, Internal Revenue Service, in testimony before the Senate Finance Subcommittee on Taxation and IRS Oversight, May 23, 2005, p. 2 – http://finance.senate.gov/hearings/testimony/2005test/notest052305.pdf.

[12]IRC § 56(b)(1)(A)(ii).

[13]Andrew Chamberlain and Patrick Fleenor, "Backgrounder on the Individual Alternative Minimum Tax," Tax Foundation, May 24, 2005, p. 5 – http://www.taxfoundation.org/publications/show/498.html.

[14]IRC § 55(b)(1)(A).

[15]Carroll Advisory Panel Memorandum, p. 3.

[16]IRS Form 1040-ES, Worksheet, Line 4 – http://www.irs.gov/pub/irs-pdf/f1040ese.pdf.

[17]IRC § 56(b)(1)(E).

While these features underscore the unfairness of the AMT, they also evidence the fact that the AMT runs counter to fundamental Republicans priorities – creating the best environment for individuals to pursue economic opportunities and encouraging strong families through marriage and children.

The Antithesis of Simplicity

The AMT is one of the most complex segments of the tax code, contributing greatly to the estimated 3.5 billion hours that individual taxpayers spend each year endeavoring to meet their federal tax obligations.[18] As a parallel tax system, the AMT requires that taxpayers first calculate their income taxes based on the ordinary income tax rules. Then, they must "complete a 12-line worksheet, read eight pages of instructions, and complete a 55-line form simply to determine whether they are subject to the AMT."[19]

While the IRS estimates that this exercise will take approximately four hours of a taxpayer's time,[20] in reality, determining AMT liability means that taxpayers must calculate their tax a second time, based on an entirely different set of rules from the regular income tax – with unique income-recognition rules, exemptions, deductions, applicable tax credits, and tax rates.[21] While professional tax preparers and computer tax programs make the calculation of the AMT easier, their availability cannot justify the complexity of the AMT. [22] It is simply unreasonable that this tax effectively forces individuals to engage an accountant or invest in computer software because the tax is nearly incomprehensible, while taxpayers remain liable for any errors that may result.

For taxpayers at the margin, calculating the AMT creates significant compliance burdens that often result in no AMT liability.[23] As one tax practitioner noted, "A taxpayer who is otherwise eligible to file a Form 1040EZ should not have to be concerned about the AMT."[24] For those snared by the tax, however, the complexity adds substantial tax-compliance costs on top of larger tax bills.

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[18]Carroll Finance Committee Testimony, p. 5.

[19]Olson, pp. 2-3 (citing IRS Form 1040 (2004) instructions at p. 35, and IRS Form 6251 (2004), "Alternative Minimum Tax – Individuals," and the related instructions). See American Bar Association (ABA) Tax Section in a letter to the Chairman and Ranking Member of the Senate Committee on Finance and to the Chairman and Ranking Member of the House Committee on Ways & Means, November 29, 2004, reprinted in *Daily Report for Executives*, November 30, 2004, p. 4.

[20]Instructions to 2004 IRS Form 6251 (2004), p. 8.

[21]Olson. p. 4.

[22]See Joseph J. Thorndike, "The Great Noncrisis of the AMT," *Tax Notes Today*, 2005 TNT 69-32 (April 12, 2005).

[23]ABA.

[24]Carol C. Markman, CPA, President, National Conference of CPA Practitioners and Partner, Feldman, Meinberg & Co., LLP, in testimony before the Senate Finance Subcommittee on Taxation and IRS Oversight, May 23, 2005, p. 2 – http://finance.senate.gov/hearings/testimony/2005test/cmtest052305.pdf.

An Unpleasant Surprise

In too many cases, taxpayers become "unsuspecting – and unintended – victims of the AMT."[25] Except for the most sophisticated taxpayers (or those able to retain ongoing professional accounting services), the AMT's lack of transparency generally prevents individuals from knowing if the AMT will apply until their income, deductions, and tax credits can be determined at the end of a tax year.[26] At that point, the taxpayer subject to the AMT discovers that he owes significantly more taxes – an *additional* $6,000, on average, in tax in 2004.[27] While that sum often comes as shock, it is not the only unpleasant surprise.

Under the ordinary tax system, the vast majority of taxpayers make their tax payments automatically through withholding on their wages. However, neither the form used by individuals to determine their withholding nor the tables used by employers to calculate the amount to be withheld take into account the application of the AMT.[28] Accordingly, taxpayers who owe significant amounts under the AMT are likely to discover that there has been too little tax withheld from their wages, potentially triggering a 20-percent penalty.[29] In fact, IRS data reveals that in 2001, more than 176,000 taxpayers subject to the AMT were required to pay estimated-tax penalties of nearly $103 million.[30]

Moreover, middle-income taxpayers may incorrectly assume that the AMT does not apply given their income levels, deductions, and/or tax credits under the ordinary tax rules, only to receive a letter from the IRS a year or more after filing their tax return, informing them that the AMT did apply after all. In that case, not only is the taxpayer subject to penalties for underpayment of taxes, but also interest on the underpaid amount.[31] In short, the AMT can result in substantial tax bills, including interest and penalties, that taxpayers have little ability to avoid.

A Deterrent to Economic Growth

Beyond its unfairness, complexity, and lack of transparency, the AMT can result in adverse economic consequences for affected taxpayers. Notably, for small business owners, the AMT's high marginal tax rates, restrictive depreciation rules,[32] and excessive compliance costs

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[25]Carroll Finance Committee Testimony, p. 2; E.J. McMahon, "Another Middle-Class Tax? How the Federal AMT Hits New Yorkers," Empire Center for New York State Policy, *Special Report*, SR1-05, April 2005, p. 4 – http://www.empirecenter.org/pdfs/sr01-05.pdf.

[26]This task is made more complicated as a taxpayers income increases since, as noted above, the AMT exemption amount is gradually eliminated as an individual's income exceeds certain thresholds. IRC § 55(d)(3).

[27]Olson, p. 2.

[28]While taxpayers are required to make additional estimated-tax payments during the year to account for income (e.g., dividends, capital gains, royalties, etc.) that are not subject to withholding, making estimated-tax payments in anticipation of the AMT requires that the taxpayer accurately calculate the AMT liability before each estimated-tax payment is due on April 15, June 15, and September 15 of the year. The taxpayer also has the option of making a final estimated-tax payment on January 15 after the tax year has closed, but that still assumes that he is able to calculate the tax essentially in the 15 days after the end of the year.

[29]IRC§ 6662. See ABA, p. 5.

[30]Olson, p. 8.

[31]IRC§ 6654 (interest on underpayments) and§ 6662 (penalty for substantial underpayment of tax).

[32]ABA, p. 9.

reduce the after-tax income that is available to reinvest in the business.[33] As a result, the AMT restricts the small business owner's ability to purchase new equipment, hire new employees, and develop new products and services.[34]

Taxpayers who are not self-employed encounter similar dilemmas. Once taxpayers become aware of the AMT, its high marginal tax rates can negatively influence their decisions about how much to work.[35] For instance, why should a worker take on additional overtime or a spouse move from a part-time to a full-time job if the additional income triggers the AMT, leaving substantially less take-home pay? Moreover, by reducing after-tax income, the AMT leaves taxpayers with less to invest in stocks, bonds, and other sources of capital, on which American enterprises rely to increase employment and expand their businesses.[36]

More broadly, the AMT has a negative effect on the economy as a whole, and, if left unchanged, that effect is only going to grow. Historically, the U.S. tax system has consumed, on average, about 18 percent of the nation's Gross Domestic Product (GDP), as illustrated in Figure 2 (on page 9). Within the next 10 years, it is estimated that the AMT will generate more revenues from American taxpayers than the ordinary tax system collects,[37] and if current law remains unchanged, *the AMT-dominated tax system will consume nearly 25 percent of the nation's GDP* by 2052.[38] As the AMT siphons an increasing amount of capital from productive use in the market, economic growth will assuredly be constrained – "knocking perhaps as much as a percent a year off of expected long-run growth."[39] For the government, lower economic growth (or worse, a recession) will lead to decreased federal tax revenues.

A Barrier to Fundamental Tax Reform

As part of the agenda for his second term, President Bush has made fundamental tax reform a top priority. Toward that goal, he has created the Advisory Panel on Federal Tax Reform and instructed its members to provide policy options that:

- simplify Federal tax laws to reduce the costs and administrative burdens of compliance with such laws;

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[33]JCT, p. 16. For small business owners, "Every dollar of profit or tax relief tends to be re-invested in the [owner's] firm." Robert Berney, then-Chief Economist, U.S. Small Business Administration Office of Advocacy, in testimony before the Senate Committee on Finance, March 28, 2001.

[34]McMahon, p. 8. Because the AMT burdens taxpayers in some states more than others (see footnote 13 and accompanying text), its adverse economic consequences are also uneven, affecting some states to a substantially greater extend than others. Kevin A. Hassett, Director of Economic Policy Studies, American Enterprise Institute, in testimony before the Senate Finance Subcommittee on Taxation and IRS Oversight, May 23, 2005, p. 3 – http://finance.senate.gov/hearings/testimony/2005test/khtest052305.pdf .

[35]Holtz-Eakin, p. 7.

[36]JCT, p. 18.

[37]Carroll Advisory Panel Memorandum, p. 4.

[38]Hassett, p. 5.

[39]Hassett, p. 6.

- share the burdens and benefits of the Federal tax structure in an appropriately progressive manner while recognizing the importance of homeownership and charity in American society; and

- promote long-run economic growth and job creation, and better encourage work effort, saving, and investment, so as to strengthen the competitiveness of the United States in the global marketplace.[40]

The panel is expected to report its final recommendations by September 30, 2005,[41] and those options are expect to serve as the basis of the Administration's final proposal for reforming the nation's tax system.

Based on the President's reform principles, the AMT, with all its adverse effects on individual taxpayers and the economy as a whole, clearly fails the test of sound tax policy. In the context of fundamental tax reform, however, the expanding reach of the AMT creates a perverse situation. As more and more taxpayers come within its grasp in the coming years, the AMT's revenues balloon, and so, too, does the "cost" of providing relief to affected taxpayers. In fact, under the current revenue-estimating rules, repeal of the AMT is projected to result in a loss of more than $600 billion to the Treasury over 10 years, based on existing law.[42] Unfortunately, it does not matter under Congress' scoring rules that this revenue bonanza was neither intended nor anticipated when the AMT was created. Furthermore, the scoring analysis does not take into consideration the detriment to the economy of extracting that amount of capital from the private sector in order to fund the windfall to the Treasury.

Implications for Congressional Reform of the Tax System

When Congress ultimately considers legislation to reform the system, a fundamental issue that must be addressed at the outset is the level of revenues the tax system should take from individuals and the economy to finance the federal government. The conservative approach argues for only as much tax revenues as are necessary to support the government. While there is no agreement on the optimal size of government, the academic literature has concluded that, as compared to other world economies like the European Union, the smaller size of the U.S. government has been a key factor leading to its higher economic growth in recent years.[43] Maintaining that smaller government over the last 40 years has required average federal tax revenues of about 18 percent, as a percentage of GDP.

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[40] Executive Order 13369, President's Advisory Panel on Federal Tax Reform, 70 *Federal Register* 2323 (January 7, 2005).

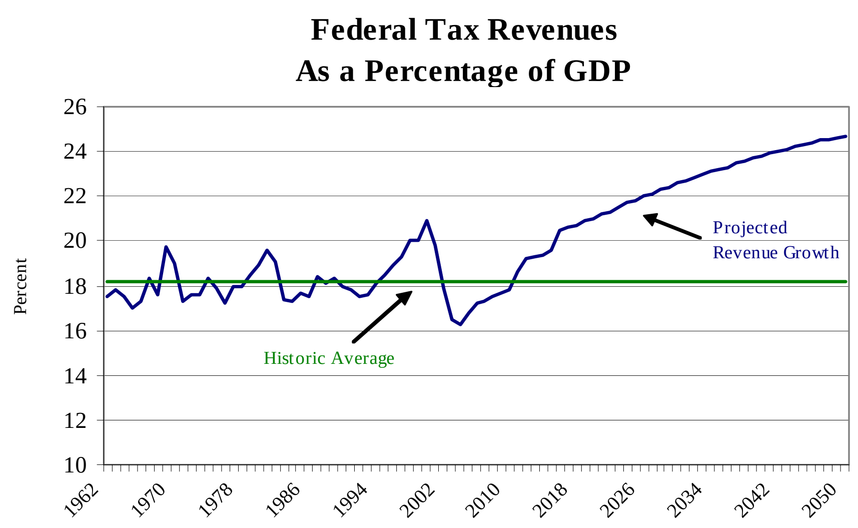
[41] On June 16, 2005, the President extended the deadline for the panel's final report to September 30, 2005. Executive Order 13379, Amendment to Executive Order 13369, Relating to the President's Advisory Panel on Federal Tax Reform, 70 *Federal Register* 35505 (June 16, 2005).

[42] Holtz-Eakin, pp. 7-8. If the 2001 and 2003 tax cuts are made permanent, the revenue estimate increases to nearly $1 trillion. CBO, "The Alternative Minimum Tax," *Revenue and Tax Policy Brief,* April 15, 2004 – http://www.cbo.gov/ftpdocs/53xx/doc5386/04-15-AMT.pdf.

[43] Robert J. Barro, "Economic Growth in a Cross Section of Countries," *The Quarterly Journal of Economics*, Volume 106, Number 2, pp. 407-443, 1991; Eric Engen and Jonathan Skinner, "Fiscal Policy and Economic Growth," National Bureau of Economic Research (NBER), Working Paper No. 4223, 1992.

Historic data, as illustrated in Figure 2, indicates that the economy has performed well when tax rates are low, keeping tax revenues at or below the historic average level. In contrast, the data suggests that peaks in tax revenues – when above-average amounts of capital are diverted from productive use in the economy – tend to presage sharp declines in revenues as the economy stalls, often ending in a recession. Accordingly, the historic average may be the best ceiling for long-term federal tax revenues around which a new tax system should be designed.

Figure 2



Source: Congressional Budget Office
Note: Figures for 1962-2004 are actual values; figures for 2005 and later are estimates and assume that the 2001 and 2003 tax cuts expire at the end of 2010, as provided under current law.

In the context of fundamental tax reform, projected tax revenues present an even bigger predicament. If the AMT is retained, the revenue baseline will grow dramatically in the coming decades, with as much as 25 cents of every dollar American taxpayers earn diverted into the government's coffers – well above the historic average. In order to produce such high levels of revenue, however, a new tax system would have to impose increasing tax burdens on American taxpayers.

To avoid this predicament, it is imperative that the AMT be repealed *before* its ballooning revenues become the baseline against which a new, revenue-neutral tax system is measured. Repeal will keep federal tax revenues within the range of the historic average, giving the U.S. economy the best chance for sustained economic growth and providing fundamental tax reform with the greatest potential for success.

Implication for the President's Advisory Panel

While the President's Advisory Panel is expected to address the AMT as part of its final recommendations,[44] the President also directed that its recommendations be revenue neutral.[45] Accordingly, a critical issue for the panel is the baseline used to determine revenue-neutrality.[46] Any new tax system that assumes the long-term revenues generated by the AMT under current law runs the risk of conflicting with the President's third principal for fundamental reform – promoting long-term economic growth. In fact, to the extent that such a tax system is based on higher marginal tax rates, research suggests that it would likely discourage work, savings, and investment by individuals.[47] Additionally, a tax system that generates increasing revenues will surely invite excessive government spending, which studies have shown actually *reduces* economic growth.[48]

Since congressional repeal of the AMT is unlikely before the panel releases its final report in September, the current-law revenue baseline will include the AMT's expanding revenues. To address this issue, the panel could simply adopt a revenue baseline that assumes the immediate repeal of the AMT. Short of that, the panel could adopt two alternatives for each policy option, one with and one without AMT revenues.[49] Whatever the approach, the panel's recommendations would best serve taxpayers and the economy if they envision a tax system that will provide federal tax revenues in line with the historic average in this country.

Conclusion

Since its inception more than three decades ago, the AMT has evolved from a requirement that the highest-income earners pay at least some taxes, into a parallel tax system that imposes excessive burdens on a growing number of taxpayers, including those with modest incomes. The AMT's unfairness, complexity, lack of transparency, and adverse economic effects clearly make the case for its immediate repeal. Moreover, as the debate over fundamental

[44]At the panel's July 20, 2005 meeting, there appeared to be a consensus in favor of repealing the AMT. Kurt Ritterpusch, "Reform Panel to Recommend AMT Repeal; Revenue Offset, High-Income Issues Open," *Daily Report for Executives*, July 21, 2005.

[45]Executive Order 13369.

[46]Initial indications are that the panel will use the President's "policy baseline," which assumes that the AMT will continue. President's Advisory Panel on Federal Tax Reform, "Revenue Neutrality Staff Presentation," July 20, 2005 – http://www.taxreformpanel.gov/meetings/docs/revenue_neutrality.ppt#2. That baseline, however, also assumes that the 2001 and 2003 tax cuts are made permanent, the effect of which is to keep the level of federal revenues within a range of 18 percent over the next five years. Office of Management and Budget, "Fiscal Year 2006 Mid-Session Review," July 13, 2005, Chart 3 – http://www.whitehouse.gov/omb/budget/fy2006/pdf/06msr.pdf.

[47]Edward C. Prescott, "Why Do Americans Work So Much More Than Europeans?" Federal Reserve Bank of Minneapolis Quarterly Review, Vol. 28, No. 1, July 2004 – http://minneapolisfed.org/research/qr/qr2811.html. Steven J. Davis and Magnus Henrekson reached similar conclusions in "Tax Effects on Work Activity, Industry Mix and Shadow Economy Size: Evidence from Rich-Country Comparisons," NBER, Working Paper 10509, May 2004 – http://papers.nber.org/papers/w10509.

[48]Hassett, pp. 5-6 (citing Robert J. Barro, "Economic Growth in a Cross Section of Countries," *The Quarterly Journal of Economics*, Volume 106, Number 2, 1991, pp. 407-443; and Eric Engen and Jonathan Skinner, "Fiscal Policy and Economic Growth," NBER Working Paper Number 4223, 1992).

[49]For example, if the panel were to propose a flat tax or a national sales tax, each option could reflect the tax rate assuming AMT revenues are included in the baseline and a separate rate assuming no AMT revenues.

tax reform begins, the excessive revenues that would be extracted from the economy by the AMT must be taken off the table if a new, simplified tax system is going to have any chance of supporting economic growth in this country.

While supporters of the AMT will undoubtedly protest that the nation cannot afford its repeal, the AMT's increasingly adverse effects make it clear that the nation simply cannot afford its continuance. The only theoretical justification is for the AMT to be a true "minimum" tax, ensuring that all Americans have a stake in government tax policies.[50]

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[50]Oliver Wendell Holmes, in a dissenting opinion to *Compania General De Tabacos De Filipinas V. Collector of Internal*, 275 U.S. 87 (1927) ("Taxes are what we pay for civilized society.").