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Tax Relief Charade

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Last week, House Republicans were the driving force behind the passage of a stopgap measure intended to provide relief for taxpayers who have been hit of late with the alternative minimum tax. The relief is sorely needed. But the House's measure is disingenuous — a temporary fix that will mollify justifiably aggrieved taxpayers in the short run while obscuring the real cause of the alternative tax problem and, by extension, dangerous flaws in the Bush administration's tax policy.

The alternative minimum tax is built into the federal tax code to ensure that superwealthy taxpayers don't use excessive tax breaks to avoid paying their fair share. In the 1990's, it never applied to more than about one million people a year. But in recent years, the tax has begun afflicting middle-class and upper-middle-class taxpayers who are far from the multimillionaires it was intended to affect. This year, about three million taxpayers will owe this tax. Without corrective action, nearly 30 million taxpayers will be affected in 2010, most of them making \$50,000 to \$200,000.

Part of the problem is that the alternative minimum tax was not designed to reflect the effects of inflation, so the House's fix would provide some inflation protection by increasing the thresholds for the tax through 2005. But a more serious cause is the Bush tax cuts of 2001 and 2003. When the tax cuts were enacted, no corresponding changes were made to the alternative tax. So as the tax cuts reduce the liability on a filer's Form 1040, the alternative tax liability looms relatively larger. In effect, most taxpayers snared by this tax will be giving back all or part of the tax savings they were supposed to reap from the Bush tax cuts.

This consequence was not unforeseen — the alternative tax has been studied from every conceivable angle for over a decade. It is allowed to endure in its current form for only one reason: to mask the tax cuts' disastrous effect on the deficit. As long as the alternative tax is on the books, official budget estimates include the revenue it is projected to raise from middle-class taxpayers — even though the administration and Congress are publicly committed to ensuring that those same taxpayers won't have to pay. One way or the other, then, the administration's tax plan is sheer duplicity. Either middle-class Americans will find their supposed tax cuts gobbled up by the alternative tax, or the deficit will be far larger than the administration projects.

The hidden budget hole is enormous. Right now, the administration argues that Congress must permanently extend the Bush tax cuts. According to estimates by the Tax Policy Center of the Urban Institute and the Brookings Institution, the cost of doing so, without reforming the alternative tax, is about \$1.2 trillion. If the alternative tax is reformed so it won't apply to middle-class taxpayers, the cost will explode to nearly \$2 trillion.

The Senate is expected to pass the House's temporary fix, but middle-class taxpayers should not be fooled. They will either get little if any benefit from the Bush tax cuts, or they will get a deficit that has ballooned beyond anyone's worst nightmare.

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