The New York Times
nytimes.com

December 8, 2005

House Votes to Block Alternative-Tax Rise

By EDMUND L. ANDREWS

WASHINGTON, Dec. 7 - Under pressure to prevent a big tax increase next year for millions of middle-income families, the Republican-controlled House passed a bill on Wednesday that would block an increase in the alternative minimum tax for one year at a cost of $30 billion.

The measure, approved 414 to 4, would prevent a tax increase for 2006 that would have affected 2 million families in New York and about 15 million nationwide.

"It's been called the stealth tax, a ticking time bomb for the middle class, and even the Darth Vader of the tax code," said Representative Thomas M. Reynolds, Republican of New York, who sponsored the bill.

But while the vote was almost unanimous, the bill's prospects remained entangled in a broader battle in Congress over extending President Bush's tax cuts. If House Republicans push through their entire agenda, those cuts could total more than $90 billion over five years.

In addition to voting on the alternative minimum tax, the House approved $7.1 billion in tax cuts for Gulf Coast areas damaged by Hurricane Katrina. But in a split with the Senate, the House bill would prohibit any of those tax cuts from going to casinos, racetracks and country clubs.

On Thursday, House leaders hope to win approval for their top priority this week: a $56 billion tax cut that would extend President Bush's tax cuts for stock dividends.

House and Senate Republican leaders also edged closer on Wednesday toward an agreement to cut as much as $45 billion over the next five years from domestic programs like Medicaid, food stamps, student loans and child-support enforcement. In a rush to finish as much work as possible before Christmas, the House also passed a bill, ardently sought by lawmakers from New York and other major cities, that would extend federal subsidies for terrorism-risk insurance.

But the Bush administration warned that it "strongly opposed" the terrorism insurance bill, saying it would expand rather than reduce the federal government's role as insurer of last resort.

The main focus on Wednesday was tax cuts, and in particular another one-year cut in the alternative minimum tax.

The tax was originally created to stop the nation's wealthiest people from taking too much advantage of special tax breaks. But in part because it is not adjusted for inflation, the tax is set to engulf millions of families with incomes below $100,000 and the majority of families with incomes from $100,000 to $200,000.

The battle in Congress is not over the alternative minimum tax itself, but over whether it should be included in a $70 billion package that would include an extension of Mr. Bush's 2001 tax cut for stock dividends and capital gains.

The White House and House Republican leaders are pushing to extend that tax cut, which expires at the end of 2008, at a cost of $20 billion.

Under the "reconciliation" procedures adopted this year, any tax cuts that are included in the $70-billion reconciliation tax bill can pass the Senate by a simple majority. But any more than $70 billion in tax cuts would need 60 votes - a tougher hurdle for Republicans.

The Senate's reconciliation bill includes $27 billion for a one-year reprieve from the alternative minimum tax, but it would not extend Mr. Bush's tax cut for stock dividends.

House Republicans are betting that Senate Democrats will go along with a stand-alone bill on the alternative minimum tax, even if that makes it easier to extend Mr. Bush's tax cut for stock dividends as part of the reconciliation bill.

The calculation may well prove correct. Senator Max Baucus of Montana, the senior Democrat on the Senate Finance Committee, welcomed the House bill as a "good first step to protect middle-income families."

Democratic-leaning states on the East and West Coasts would be hit the hardest by the alternative tax, mainly because they have the highest concentration of wealthy households.

New York, New Jersey, Connecticut, Massachusetts and California have the highest percentages of families that would face the tax next year.