RSC
Republican Study Committee

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Legislative Bulletin……………………………………..………September 24, 2008

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H.R. 7005—Alternative Minimum Tax Relief Act (*Rangel, D-NY*)

Order of Business: The bill is scheduled to be considered on Wednesday, September 24th, under a motion to suspend the rules and pass the bill.

Summary: H.R. 7005 would prevent for just one year a huge, unintended tax increase—a one-year "patch" on the exemption level for the Alternative Minimum Tax (AMT), without which more than 25 million taxpayers would be subject to a large tax increase beginning in tax-year 2008.

- AMT "Patch". Provides for a $69,950 AMT exemption amount for married couples in 2008 (it was $66,250 in 2007 and would drop to $45,000 without a "patch"), for a $46,200 exemption amount for singles (it was $44,350 in 2007 and would drop to $33,750 without a "patch"), and the current-law relief for certain nonrefundable personal AMT credits.

- Incentive Stock Options. The bill would also prevent taxpayers with AMT credits from paying tax on "phantom" income attributable to incentive stock options (i.e. income that appears on paper but that the taxpayer has not actually exercised).

Overall the bill would save taxpayers $64.61 billion over ten years.

Note: On June 25, 2008, the House passed H.R. 6275, an AMT "patch" bill that included massive tax increases, by a vote of 233-189.

Last year, Congress and the President enacted a "clean" AMT patch for tax-year 2007 (Public Law 110-166) without any tax increases, after several attempts to patch the AMT with accompanying tax increases.

Additional Background: The AMT was created in 1969 as a mandatory add-on to the existing tax code to prevent 155 of the very wealthiest taxpayers from lowering their tax bills using the available deductions and credits. The AMT's reach has since grown dramatically through bracket creep.

The AMT has a two-tiered rate structure, 26% and 28%, and an exemption, so that most people do not currently pay the AMT (which is always a higher tax than the tax calculated under the regular tax system).

Unlike other exemptions in the tax code, the AMT exemption (currently $45,000 for joint returns in tax-year 2008) is not adjusted for inflation. As a result, though meant for the wealthiest of taxpayers, 3.5 million taxpayers were subject to the AMT in 2006, and tax organizations estimate that over **25 million taxpayers may be subject to the AMT in 2008** when they file their tax returns in the spring of 2009, absent congressional action.

Another important reason the AMT is negatively impacting more and more taxpayers is the 1993 tax increase, written by a Democrat Congress and signed into law by President Clinton. The Democrats raised the then-24% rate to 26% on the first $175,000 of AMT-taxable income above the exemption and 28% on the AMT-taxable income in excess of $175,000.

RSC Bonus Fact: In 1999, the Republican Congress sent legislation to the President fully repealing the AMT, yet President Clinton vetoed that bill.

Committee Action: On September 23, 2008, H.R. 7005 was introduced and referred to the Ways & Means Committee, which took no subsequent official action.

Administration Position: The Statement of Administration Policy (SAP) for H.R. 7005 "strongly supports" passage of this bill.

Cost to Taxpayers: The Joint Committee on Taxation estimates that this bill would save taxpayers $64.61 billion over ten years.

Does the Bill Expand the Size and Scope of the Federal Government?: No.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: Although no earmark/limited tax benefit statement was available at press time, the bill contains no earmarks or limited tax benefits.

Constitutional Authority: Although a committee report citing constitutional authority for H.R. 7005 was unavailable at press time, for previous AMT bills, the Ways & Means Committee cited constitutional authority in Article I, Section 8, Clause 1 (the congressional power to lay and collect taxes, duties, imposts, and excises to pay the debts and provide for the common defense and general welfare of the United States) and the 16th Amendment (the congressional power to tax incomes).

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H.R. 7006—Disaster Tax Relief Act (*Rangel, D-NY*)

Order of Business: The bill is scheduled to be considered on Wednesday, September 24th, under a motion to suspend the rules and pass the bill.

Summary: H.R. 7006 would provide tax relief to individuals affected by federally-declared disasters nationwide, declared after January 1, 2008, and before December 31, 2011. Highlights of the bill are as follows:

- Allows itemizing and non-itemizing taxpayers who have suffered losses as a result of a federally-declared disaster in tax-years 2008-2011 to claim tax deductions for casualty losses without regard to their adjusted gross income. Each claimed loss would have to exceed $500. Under current law, only itemizers with losses exceeding 10% of their gross incomes could claim losses each above $100. ***Saves taxpayers $2.45 billion over 10 years.***

- Allows businesses that have been adversely affected by a federally-declared disaster in tax-years 2008-2011 to immediately expense (i.e. deduct) demolition, repair, clean-up, and environmental remediation expenditures. Under current law, only certain disaster-related expenditures may be expensed immediately. ***Saves taxpayers $106.0 million over 10 years.***

- Allows businesses to carry back to the previous five years (as opposed to two years under current law) casualty losses attributable to a federally-declared disaster in tax-years 2008-2011. When taxpayers carry losses back to prior years, they receive a refund of the taxes that they paid in the earlier year(s). ***Saves taxpayers $465.0 million over 10 years.***

- Allows states to use their tax-exempt housing bonds (mortgage revenue bonds normally used to finance the first-time purchase of low-income housing) to provide loans to repair or reconstruct homes and rental housing units that have been rendered unsafe or have been demolished or relocated (by reason of government order) because of a federally-declared disaster. The loans would be limited to the lower of the actual cost of the repair or reconstruction or $150,000. ***Saves taxpayers $55.0 million over 10 years.***

- Increases, through tax-year 2011, the standard vehicle-mileage rate used for purposes of calculating a charitable deduction from 14 cents-a-mile to a Treasury-determined amount not less than the rate used for medical purposes (currently 27 cents a mile). ***Saves taxpayers $441.0 million over 10 years.***

- Allows the Treasury Secretary to allocate additional low-income housing tax credits to states that contain federal disaster areas (up to $2 billion-worth of housing total, prioritizing states with the largest losses). Under current law, there is a state-by-state limit on the annual amount of Federal low-income housing tax credits that may be allocated by each state. ***Saves taxpayers $1.41 billion over 10 years.***

- Authorizes the Treasury Secretary to allow for the issuance of an additional $13 billion of tax-exempt private activity bonds to finance the replacement, repair, reconstruction, or renovation of business property that was damaged or destroyed because of a federally-declared disaster, giving priority to those areas that have suffered the greatest business losses. Under current law, there is a limit on the annual amount of tax-exempt private activity bonds that each state may issue. ***Saves taxpayers $1.44 billion over 10 years.***

- Waives the charitable deduction limits regarding charitable cash contributions that are made prior to December 31, 2009, for relief efforts related to a federally-declared disaster. Under current law, the amount allowed as a charitable deduction in any taxable year generally may not exceed ten percent of a corporation's taxable income or fifty percent of an individual's adjusted gross income. ***Saves taxpayers $1.61 billion over 10 years.***

Committee Action: On September 23, 2008, H.R. 7006 was introduced and referred to the Ways & Means Committee, which took no subsequent official action.

Administration Position: A Statement of Administration Policy (SAP) was not available at press time.

Cost to Taxpayers: The Joint Committee on Taxation estimates that H.R. 7006 would save taxpayers $8.09 billion over ten years.

Does the Bill Expand the Size and Scope of the Federal Government?: No.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: Although no earmark/limited tax benefit statement was available at press time, the bill contains no earmarks or limited tax benefits.

Constitutional Authority: A committee report citing constitutional authority was unavailable at press time.

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