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One-year AMT fix a done deal

The House passes an AMT patch that meets Republican and White House criteria, postponing the pay-for battle to next year.

By **Jeanne Sahadi**, CNNMoney.com senior writer

December 20 2007: 6:09 AM EST

NEW YORK (CNNMoney.com) -- The storm over the Alternative Minimum Tax (AMT) hasn't passed, but a final bill providing one year of tax relief for 21 million taxpayers finally has after months of debate.

The House on Wednesday voted in favor (352-64) of a one-year AMT "patch" that the Senate had already approved earlier this month. The vote marked the third time the House passed an AMT patch bill in the past two months, but it's the first time House Democrats gave the nod to a "clean" bill, meaning it has no provisions to pay for the patch's estimated \$53 billion price tag.

The final bill is a victory for Republicans and the White House. Senate Republicans twice rejected House Democrats' "revenue-neutral" AMT patch bills, which would have raised as much in tax revenue as the patch costs. And the White House said the president would veto such bills.

House Ways and Means Chairman Charles Rangel (D-NY) said that Democrats were put between a rock and a hard place by Senate Republicans. "The House has twice presented them with AMT relief that would not add to the national debt and they have twice blocked its consideration," he said in a statement. "So, what are our options? We chose to protect the taxpayers. Forget the loopholes, forget the revenue losses, forget the indebtedness - at least for now - because we do not want those hardworking families to wake up in the morning and find that there is a feud between Republicans and Democrats."

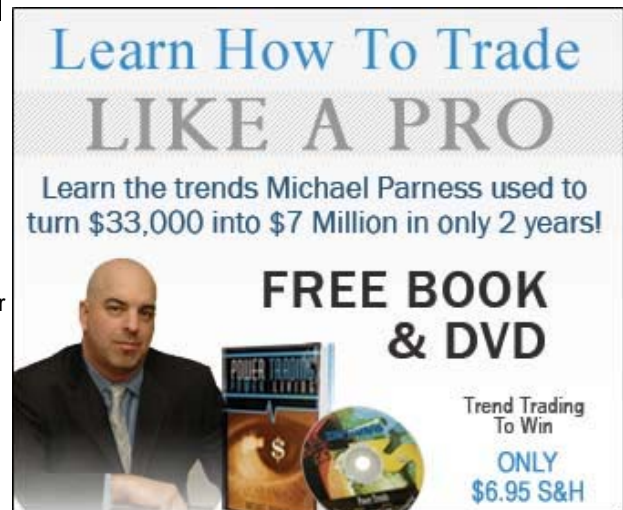
The bill passed Wednesday will be sent to President Bush, who is expected to sign it.

Failure to act on the AMT before the end of the year - a delay that both Democrats and Republicans have blamed each other for - could push back the start of tax filing season and delay the time it will take taxpayers to receive their refunds.

"It is likely that there will be some delays, including delays of some refunds," Treasury Secretary Henry Paulson said in a statement following the vote.

The IRS has said it will take [seven weeks](#) from the point when the patch is signed into law to reprogram its systems to reflect the changes before it can begin processing returns.

The debate over whether to pay for AMT fixes will almost certainly be revisited next year, when lawmakers will once again have to decide what to do about the AMT - whether to approve another one-year patch for tax year 2008 to protect middle-class taxpayers from it or to get rid of the tax altogether, which could deprive federal coffers of between an estimated \$500 billion and



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\$1 trillion over 10 years.

Both parties agree that in its current form the AMT is ill-conceived. Since the AMT's inception nearly 40 years ago, the amount of income you're allowed to exempt from AMT consideration has never been adjusted for inflation.

It was meant to ensure that wealthy tax filers pay some tax because under the regular tax code they could avoid paying much - if any -- tax because of all the loopholes in the tax code at the time. But because average income has outpaced inflation over time, more and more middle class people start to look like the rich guys when doing their AMT calculations.

Since 2001, Congress has temporarily increased income exemption levels. The last "patch" - for 2006 - put the exemption levels at \$62,550 for joint filers and \$42,250 for single filers. The bill the House passed calls for an increase in those levels to \$66,250 and \$44,350, respectively. Without a patch, the 2007 exemption amounts would have fallen to \$45,000 for joint filers and \$33,750 for single filers.

Democrats and Republicans both make impassioned speeches about the need to adjust those income exemption levels and allow for a number of tax breaks that are disallowed under the AMT.

But the AMT raises a lot of tax revenue every year. And lawmakers are at odds on what to do if that money isn't coming in.

Republicans have said they oppose raising other taxes to pay for temporary AMT relief for two reasons:

- The revenue was never intended to be raised in the first place since the tax wasn't intended to hit middle class taxpayers; and
- The offsets proposed are often permanent in nature, while AMT relief is temporary, at least when done on a year-by-year basis. People on both sides of the aisle, however, have called for permanent repeal of the tax as well.

Democrats and deficit watchdogs on both sides of the aisle contend that AMT relief should be paid for because the cost of borrowing the money raises the long-term cost of the patch and increases the country's deficit.

"If the nation doesn't pay for extending AMT relief now, it will have to later, through tax increases, spending cuts, or both, that are likely to affect millions of ordinary working families," according to a statement from the liberal Center on Budget and Policy Priorities. ■

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