



BUDGET COMMITTEE



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**Floor Remarks of Senator Judd Gregg
on the Alternative Minimum Tax (AMT)
December 6, 2007**

Mr. President, I appreciated the Chairman of the Finance Committee's outline of the AMT problems. He is absolutely accurate about the problems. It was a concept passed to make sure people who had high incomes would pay a fair share of taxes.

It turns out it was drafted poorly and it was not indexed for inflation. So as a result, we have literally millions of people paying the tax who should not have to pay the tax. Therefore, it should be repealed. Actually, it should be repealed permanently. There is no reason for us to go one more year. We should do the whole thing and get it done with.

But this bill, which is being brought forward and on which cloture is being filed in order to proceed to it, is a very bad approach. This is a tax which was never intended to be in place. People were never supposed to pay this tax and, therefore, to correct it isn't giving them a tax cut, but saying, 'you will be taxed the way we expected you to be taxed.'

To put it another way, if the tax goes forward, people are going to pay a tax they shouldn't have to pay because it was never perceived they would have to pay it. A bill which should accomplish that, which should give those people relief, is being coupled with tax increases on people who shouldn't have to pay new taxes to correct the AMT problem, and it is also being coupled with a bill that has some really bad policy in it.

For example, this bill will stop the IRS from proceeding with investigations and potential action against people who are using the Virgin Islands as a tax shelter. There are 279 investigations going forward right now relative to Americans who basically have created a shell lifestyle in the Virgin Islands so they can avoid taxes in the United States, which they really probably owe. It is estimated there may be as much as \$370 million in taxes owed by these high-income individuals to the United States.

This is the bill that came to us from the House. It will stop that. We can no longer investigate those people. The IRS can no longer continue to proceed with action against those people who are basically trying to escape American tax law.

Also, this bill includes in it a tax deduction for state legislatures during periods when they're not in session. How about a little assistance to our friends from the state legislature in, say, maybe, New York? So if a New York legislator does not go to Albany, they can still deduct their per diem expense.

Those are terrible policies. The larger policy that is bad in this bill is that we are essentially going to hit partnerships and individuals with something called a carried interest tax. The practical effect of which will hit people who are involved in the financial business in the United States. People involved in the financial business in this country, and I know there is not a lot of sympathy for these folks because they make a lot of money and we would all like to make a lot of money like that, but these folks essentially are the engine of a large part of the economy, creating the capital which is then invested in the businesses, in the entrepreneurs, who then create jobs.

Jobs don't appear from thin air. They really don't. They appear because somebody out there is a creative individual who says, 'I've got an idea, I'm going to start this little company and I'm going to start this little restaurant, this little business,' and they build it. And then they get to a certain point where they need more money. Where do they get more money? It appears because we have financial markets, the most viable financial markets in the world where people raise money. They go to the market and they say to the people who are the professionals, 'We need x amount of dollars in order to expand our business to create more jobs in New Jersey or New Hampshire or Montana and we're coming to you to raise capital.' And the folks go out and raise capital and invest in the businesses that create jobs. Those entrepreneurs create jobs.

This bill says that those people in those financial markets will receive a brand new tax on what they consider to be the way they raise money and create wealth for Americans by creating jobs, on what they consider to be a fair way to do it. It is a brand new tax.

What is the implication of putting the new tax in place in order to pay for the elimination of a one-year repeal of the of the AMT expansion down the road? The practical implication of doing it this way is that people who should not pay taxes to begin with under the AMT will not have to pay their taxes. That's good. But we should not have counted that revenue anyway.

But, second, you put in place a new tax system which will drive those people who create that financial incentive which creates jobs and gives business people and small entrepreneurs in this country the revenue and the capital they need to create jobs, you drive them overseas. We will be exporting jobs again because we have global competition in the area of capital.

One of our biggest problems in this country today is that a lot of the capital that's being formed in this world today, which used to be done in New York, where if you wanted to raise capital in this world you used to come to New York. Unfortunately, it's a world competition and now places like London are competing with us and they're being very effective in their competition.

One reason they are able to compete effectively is we put a lot of restrictions on our people which have been maybe a little bit over-the-top, and more importantly, we have a corporate tax policy which has not been constructive, which has not encouraged people to stay here but encourages them to go overseas. The effect of this proposal is we would be exporting more jobs, not only the job of the person in the financial markets, we will export the creation of the capital and that's serious. That capital is the feed-corn for the expansion of our economy.

You shouldn't be raising taxes at this time. That's another point that should be made of the AMT proposal which comes from us from the House raises taxes. That's pure and simple. We're headed into potentially an economic slow down. That's the way it looks. Because of the sub-prime crisis, we are headed into a slowdown. Hopefully it will not be severe, but it could be difficult. No question about that. To raise taxes in the face of that type of a slowdown is the opposite of what any reasonable person who has experienced any economic slowdown would do.

In fact, just recently, I was interested to read where Robert Reich, Secretary of Labor under the Clinton Administration, a liberal economist and a very talented one -- he went to Dartmouth so I know he is talented -- he said tax increases at this time would be foolish. We should be talking about a tax cut.

And what we on our side would like to do is put in place an AMT fix which is permanent. That's been proposed by a number of us on our side. Just correct this problem so we do not have to deal with it this year, next year, or the year after. That is the first thing we should do. Short of that, we should put one in that is a little bit longer, at least, so there is some predictability in the tax laws.

But under no circumstances should we put in place an AMT fix which is coupled with a tax, or which is coupled with terrible policy such as this Virgin Island loophole and this state legislature loophole that is in this bill. So that's why we resist this approach.

Now the Republican leader suggested three avenues where we can correct this problem. I don't know why they were rejected by the other side of the aisle. But I believe we can work this out. Because I believe when I listen to the Chairman of the Finance Committee that there isn't that much difference between where he wants to go and where our side would like to end up, which is, 'let's straighten out the AMT.'

Let's put the additional tax policy and tax increases which have come from the House aside. Let's just say the House got off on the wrong track. Let's just take this approach of doing AMT and do AMT and fix that. And then if the House wants to come back with a tax increase bill, we'll fight that out in a separate arena. We can't on our side support a bill and vote for cloture on a bill that would shut us out from offering a lot of our amendments, and would potentially lead to a tax increase in order to correct what is an underlying important problem.

Now obviously this is a motion to proceed, so we might not be shut off from amendments, but I suspect the motion to proceed would be followed very closely, if we follow the policies that have been occurring around here, by filing cloture on the underlying bill. If the other side of the aisle's position is, 'we're willing to give you your votes,' let's just set that up right now. Let's take the Republican leader's position, set up three or four votes in tandem and make them all 60-vote hurdles if that's what it requires, because Pay-Go is going to get waived on every one of them. And vote them, bang, bang, bang, bang, bang. Let's not go through this exercise on cloture.

We want to correct the AMT problem. We think it should be corrected. We don't think the way to correct it is to raise taxes on the productive side of the American agenda and potentially throw us into a further slowdown of the economy or force people to go overseas in order to raise capital or, alternatively, put in place policies which basically make the Virgin Islands a safe haven for people who want to avoid American taxes or give state legislators the opportunity to claim a per diem production when they're not even going to work.

I yield the floor.

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