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Baucus, Levin Say Congress to Keep 'Onerous' Minimum Tax From Increasing

By Ryan J. Donmoyer - Nov 9, 2010 4:11 PM ET

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Nov. 9 (Bloomberg) -- Stanley Collender, a former Democratic House Budget Committee aide who is currently managing director at Qorvis Communications, talks about the potential that an impasse on U.S. budgeting could force the federal government to shut down. Collender speaks with Margaret Brennan on Bloomberg Television's "InBusiness." (Source: Bloomberg)



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Nov. 9 (Bloomberg) -- Jason Tyler, director of research operations at Ariel Investments LLC, discusses financial rules regulation and the outlook for banks. Tyler speaks with Erik Schatzker on Bloomberg Television's "InsideTrack." (Source: Bloomberg)

Congress will "do everything possible" to prevent the alternative-minimum tax from forcing 21 million households to pay an additional \$66 billion in taxes this year, four lawmakers said in a letter to the Internal Revenue Service.

Max Baucus of Montana and **Charles Grassley** of Iowa, the chairman and top Republican on the Senate Finance Committee, urged IRS Commissioner **Douglas Shulman** today to prepare for the 2011 tax filing season by assuming the minimum tax will be adjusted for inflation. A delay in making the adjustment in 2007 held up processing of tax returns and refunds the following year.

"We will work to craft the AMT provision so that, in the aggregate, not one additional taxpayer faces higher taxes in 2010 due to the onerous AMT," the senators wrote in the letter. It also was signed by Michigan Representatives **Sander Levin** and **David Camp**, the chairman and top Republican on the House Ways and Means Committee.

The lawmakers were responding to a Nov. 5 letter from Shulman in which he warned of delays in 2011 if legislation isn't enacted "until late this year."

"We will move as fast as we possibly can to implement any late tax law changes and minimize the impact to taxpayers," Shulman wrote. "However, our implementation timelines are driven by careful planning and risk management. Changes to systems that handle the enormous transaction and dollar volume that the IRS manages cannot be completed without substantial engineering and testing work."

Lame-Duck Session

Congress plans to act on the tax during a lame-duck session beginning Nov. 15.

The alternative-minimum tax was created in 1969 to prevent 155 wealthy Americans from avoiding any tax by claiming

excessive deductions, credits and exemptions.

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It replaces deductions such as those for medical expenses and state and local taxes with a flat exemption when the itemized deductions become too large compared to income. Amounts over the exemption are taxed at 26 percent or 28 percent, depending on the amount of income.

The tax wasn't indexed for inflation and over time has affected Americans of more modest income. Congress has responded with a series of annual "patches" for inflation that raise the exemption amount.

H&R Block

For this tax year, about 21 million additional households would face an average tax increase of between \$3,000 and \$5,000 unless Congress raises the exemption, said Kathy Pickering, executive director of the Tax Institute at [H&R Block Inc.](#) in Kansas City, Missouri, the nation's largest preparer of tax returns.

The lawmakers said they are drafting legislation to set the 2010 exemptions at \$72,450 for married taxpayers filing jointly and \$47,450 for singles. The exemptions currently are \$45,000 and \$33,750.

If lawmakers don't adopt the patch, Pickering said, a family of five with \$50,000 in income and a child in college would pay more taxes.

Without the patch, the minimum tax would have its greatest effect on large families and residents of states with high taxes, such as California and New York, because exemptions for children and deductions for state and local taxes are denied under the AMT. People earning between about \$75,000 and \$500,000 would be most likely to pay the tax, she said.

Balance Due

"Those who were looking forward to getting a refund wouldn't be getting one and some would have a balance due they would otherwise not have expected," she said.

In 2007, Congress didn't renew the patch until Dec. 26. The leaders of the tax-writing Senate Finance and House Ways and Means committees sent a letter the previous Oct. 30 to the IRS saying they planned to adopt the tax adjustment.

Because of the late change, the IRS didn't start accepting tax return filings until mid-February 2008, delaying refunds for about 4 million households that usually file tax returns in January.

IRS spokesman [Anthony Burke](#) said the letter from the lawmakers "will be very helpful." The IRS expects to process about 140 million individual tax returns in 2011 and distribute almost \$300 billion in tax refunds, Shulman's letter said.

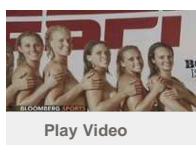
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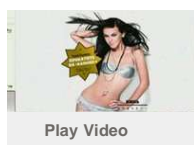
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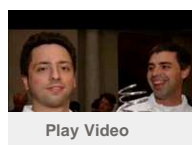
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