

Marriage Penalty Relief Throws Millions Onto the AMT

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SCRIPT: Is Congress suffering from attention deficit disorder?

We've got two main problems. One is government isn't raising enough revenue to pay for itself. And the second is that the tax system is pointlessly complex.

So, what is Congress doing? Proposing more tax cuts, which means higher deficits. And it's making the tax code so confusing people are pulling their hair out.

Take this week's proposed tax cut. It's billed as marriage penalty relief.

Married people can pay more taxes than single people do. The House thinks that's not fair so they propose to eliminate the marriage penalty permanently.

Sounds great. But wait a minute.

Even if you got rid of the marriage tax penalty, there's another tax waiting to bite you. I'm talking about the Alternative Minimum Tax.

It works like this: you calculate your tax under the regular tax rules and the AMT rules and you pay whichever is higher.

So suppose you cut regular taxes but not the AMT for married families. Guess what happens. More married couples get socked by the AMT. Three million of them in 2005.

Most couples with incomes over \$100,000 will have to wrestle with the AMT. Some relief.

Congress should deal with the underlying problems first. Decades ago the AMT was created to make sure rich people paid at least some taxes. But over the years that tax has snagged more and more middle class people as inflation boosts incomes. So, Congress should target the AMT to the millionaires it was intended to hit, rather than middle class families, and take the deficit seriously.

That means either increasing taxes, or cutting spending, or both. I know it's not a popular notion in an election year, but if we keep on running up red ink, we're setting the stage for huge taxes on our kids. We could call that the family tax penalty.

In Washington, this is Len Burman for *Marketplace*.

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