

# WebMemo



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## Senate Tax Extenders: Another Sneaky Tax Hike

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The “Jobs, Energy, Families, and Disaster Relief Act of 2008” is set for a cloture vote in the Senate. This is the first legislative step in yet another attempt by Congressional leadership to hike taxes under a cloak of faux fiscal discipline. The legislation includes an Alternative Minimum Tax (AMT) patch for 2008. It also extends nearly one hundred expired or expiring federal tax provisions and, in a misguided effort to “pay for” these extensions, includes three major tax hikes.<sup>1</sup> Congress should extend the AMT patch; it should debate the other provisions and extend those consistent with sound policy; and, if Congress believes the revenue raising provisions are sound tax policy, the resulting revenues should offset the revenue effects of additional tax cuts. A good example of a better alternative is the McConnell/Grassley extenders bill.

**Patching the AMT...Again.** The AMT patch is the modern legislative issue that will not go away. Every year the patch expires; every year members of Congress across the political spectrum decry the threat of a massive tax hike on unwary taxpayers if Congress does not extend the patch; and every year Democrats insist on tax increases to offset the “cost” of the patch. Fortunately, the argument annually withers in the face of the commonsense proposition that preventing a tax hike is not a cut and therefore does not necessitate an offsetting tax increase. To their credit, the authors of the Senate tax bill did not try to use the AMT patch extension as an excuse to raise taxes.<sup>2</sup>

**Extending Federal Tax Provisions Without Tax Hikes.** Long before the AMT patch was an

issue, lawmakers raised the banner of fiscal discipline to justify raising taxes as a means of maintaining current tax policy. Such practice usually took the form of legislation extending provisions known as “tax extenders,” including such popular provisions as the R&D tax credit and the low-income housing tax credit. Unfortunately, the Senate tax extenders bill continues this practice.

As with any legislation of this scope, some of the extensions are appropriate while others should be discarded. However, in either event, these tax extensions are not new laws and should not be treated as such. Provisions that prevent tax hikes and that are retained should not have to be “paid for,” while those that are eliminated should be considered as tax increases.

Three major tax hikes are included in the bill. Whatever the tax policy merits of these tax hikes, the purported rationale for the tax increase should not be lost. If Congress decides these provisions are appropriate as an “offset,” then the revenue raised should be used to offset actual tax cuts rather than extensions of current law. Anything else would represent further expansion of government as well as a tax increase.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Taxes/wm2006.cfm](http://www.heritage.org/Research/Taxes/wm2006.cfm)

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In the past, as well as the present, and whether in regard to the AMT patch or other extenders, fiscal discipline does not require raising taxes to prevent a tax hike.

**Good Policy, Not a Good Show.** Congress should make the AMT patch permanent until such time as it can engage in a broader review of tax policy that will eliminate the AMT altogether. Congress should review the scores of other extenders, make those that are deemed good policy permanent and allow the balance to lapse. If it believes the proposed revenue raisers are appropriate, Congress should use the resulting revenues and those from any lapsed extenders to offset the costs of additional tax cuts. The McConnell/Grassley extenders bill would be a good place to start.

Fiscal discipline is important to the long-term health of the economy. Real fiscal discipline—restraining spending—would be a welcome change for this Congress. At the very least, however, Congress should not attempt to raise taxes while maintaining current tax law under the guise of a faux fiscal discipline. At a time of rising energy and food prices the American taxpayer does not need rising taxes too. Regardless of what label the Democrat leadership applies, a tax increase is still a tax increase.

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1. Peter Cohn, "Reid Looks To Move Forward on 'Extenders' Measure," Congress Daily AM, July 29, 2008, at [http://www.nationaljournal.com/congressdaily/cda\\_20080729\\_7736.php](http://www.nationaljournal.com/congressdaily/cda_20080729_7736.php) (July 30, 2008).
2. J. D. Foster, "AMT Patch Disguises a Tax Hike, Again," Heritage Foundation WebMemo No. 1968, June 25, 2008, at <http://www.heritage.org/Research/Taxes/wm1968.cfm>.