

# **TAX LETTER**

## **Tax Issues for Congress by End of 2007**

As far as income tax is concerned, Congress did approve a minimum wage hike and certain small business incentives before their summer recession, what the lawmakers need to do before the end of this year ? The legislative agenda for the remainder of the year could include solution to the Alternative Minimum Tax (AMT), certain extension of tax cuts which expired in 2007 or will be expired by the end of 2007.

### **(A) The AMT ISSUE**

Among all other issues, AMT should be one of the important subjects. Each year, a taxpayer pays either his or her regular tax or the tentative AMT, whichever is higher. Taxpayers are permitted a flat exemption amount in calculating their AMT, and have only two tax rate brackets (26% and 28%). In contrast, the regular income tax has personal exemptions, itemized or standard deductions, and a tax rate structure of many brackets. Congress approved temporary fixes by increasing the exemption amount every few years during the last several years. The Tax Increase Prevention and Reconciliation Act of 2006 (P.L. 109-222) extended the increased exemption for one year to \$42,500 for single filers and \$62,550 for married couples filing jointly. Absent further action, the exemption amounts will revert in 2007 to \$45,000 and \$33,750 for couples and singles, respectively. As a result, more taxpayers would be subject to the AMT.

### **(B) THE TAX GAP ISSUE**

Changes in tax law and IRS tax administration are among the methods discussed in Congress to reduce the estimated \$345 billion tax gap. In 2005 and 2006 Congressional Research Reports (CRS reports) the Joint Committee on Taxation (JCT) recommended restricting tax shelters, closing tax “loopholes,” and addressing noncompliance through other means, such as simplification and clarification of the tax laws, increased certain withholding and informational reporting. The CRS reports went further to state that the Treasury’s Office of Tax Policy has identified the following areas to act and to reduce the tax gap:

1. Improve reporting requirements
2. Efforts to enhance data access
3. Strengthen tax audit procedure and collection authority
4. Revising penalties
5. Clear and additional regulations and guidance for taxpayers
6. Improve information technology

7. Set up more efficient compliance activities, and
8. Reduce the complexity of the tax-code and regulation

### ( C ) TAX SHELTER ISSUE

Tax shelters have gained considerable interest from lawmakers in recent years, and they have been enacting many restrictions into law. According to the CRS report, tax shelters not only reduce tax revenue directly, but give rise to questions about tax fairness to taxpayers who do not use tax shelters. Another area of tax shelter is the tax treatment of U.S. foreign income. Currently, many U.S. companies can use a tax benefit, similar to a “deferral”. They invest in foreign countries that have relatively low tax rates, thus, indefinitely defer U.S. tax on their foreign income as long as their foreign income are reinvested abroad in their foreign subsidiaries. There is indication that Congress may look into this before the end of the year.

Whatever it may be, we can only hope for the best.