

Bush Tax Cuts, AMT Lead Tax Foundation List of Decade's Top Tax Stories

Stimulus, Housing Lobby's Influence on Federal Tax Policy, Environmental Taxation, Health Care Also Considered Among Most Important Tax Issues from 2000-2009

Washington, DC – The tax cuts led by President Bush in 2001 and 2003 and the annual Congressional flurry to enact a patch to prevent millions of taxpayers from being subject to the Alternative Minimum Tax (AMT) lead the Tax Foundation's list of the Top 10 Tax Stories of the Decade.

"The years 2000 through 2009 were a decade marked by major tax cuts as well as major spending obligations," said Tax Foundation President Scott Hodge, who joined the organization at the beginning of the decade. "We can expect the next 10 years to contain massive tax increases, both because of large federal deficits and what could be the most significant tax change since the Bush tax cuts – one that could happen within the next 30 days: tax increases to fund health care reform."

The full list and commentary is available online at <http://www.taxfoundation.org/news/show/25665.html>. The most important tax stories of the past decade, as judged by Tax Foundation staff, are:

1. **The Bush Tax Cuts.** The 2001 tax cut focused on immediate cuts in wage taxes for low- and middle-income people (taxes for high-income earners were phased in over many years). The 2003 cuts reduced capital gains and dividends tax rates.
2. **The Alternative Minimum Tax.** Originally created in 1969 to ensure that high-income earners still had to pay taxes even though they were able to reduce their federal income tax liability by taking advantage of loopholes in the tax code, the 2000s saw the AMT (which was not indexed for inflation) threaten more and more middle-class taxpayers. Just before the end of each tax year, Congress would pass an AMT patch retroactively raising the AMT exemption level.
3. **The IRS, Rebate Checks, and Fiscal Stimulus.** The federal government has repeatedly borrowed money and recruited the IRS to deliver checks to millions of taxpayers in an effort to stimulate the economy. In 2003, \$400 checks were delivered to each taxpayer who was supporting a child 16 years or younger. Five years later, the stimulus package included sending checks of varying amounts to millions of taxpayers, and in 2009, President Obama's first tax bill adjusted withholding to deliver \$400 to each taxpayer (\$800 to married couples).
4. **Influence of the Housing Lobby on the Federal Tax Code.** From preserving the mortgage interest deduction to the bailout to the First-Time Homebuyer Credit, the National Association of Realtors, the National Association of Home Builders, Fannie Mae, Freddie Mac and the like have fought hard to maintain the housing industry's favored status in the federal tax code.
5. **Emergence of Environmental Taxation as Key Policy Issue.** Since Al Gore lost the presidency in 2000, he has helped make climate change a real-world policy debate – and tax policy (cap and trade or a carbon tax) has emerged as a popular vehicle to attempt to reduce global temperatures. President Bush signed into law the Energy Policy Act of 2005, which was passed in response to public disgust over the rapid rise in gasoline prices and included all sorts of tax provisions supporting both clean energy innovation and traditional dirty energy. Tax credits for hybrid cars and energy-efficient appliances appeared as new lines on the federal form 1040.

6. **Health Care and Tax Reform.** From debate over the tax exclusion for employer-provided health insurance to the creation of health savings accounts, health care and tax policy were making headlines in the early 2000s. At the end of the decade and entering the next one, tax increases to fund health care reform seem all but inevitable.
7. **Growth of Tax Competition (Good and Bad).** On the international front, industrialized nations around the world cut their corporate tax rates to become competitive, and more and more countries – except the United States – followed suit. Domestically, interstate tax competition has risen – mostly in the negative form of tax incentive packages rather than cutting rates and improving state’s tax climates.
8. **Popularity of Nanny Tax Policies.** “Sin” taxes – from cigarettes to candy to plastic bags and other “negative” behavior – have gained momentum in many states.
9. **The Tax Gap.** The tax gap, the amount of unpaid tax from money people owe but have evaded (some by failing to file a tax return at all but most by filling out their tax returns incorrectly) has gotten a lot of attention this past decade, especially as the Obama administration attempts to crack down on money kept in overseas banks by wealthy individuals.
10. **California’s Decade of Fiscal Ruin.** Even before California raised income and sales taxes in 2009, the state had the sixth highest state-local tax burden in the country. For many years the state has relied especially heavily on tax revenue from capital gains and other income from high-income individuals, and when revenues soared during the prosperous economic times in the middle of the decade, lawmakers increased spending levels to match those revenue surges. Legislators are currently considering the views of a recent tax reform panel charged with stopping the state’s boom-and-bust budget cycle.

The Tax Foundation is a nonpartisan, nonprofit organization that has monitored fiscal policy at the federal, state and local levels since 1937.

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The Tax Foundation commentary “Top 10 Tax Stories of the Decade” is available online at <http://www.taxfoundation.org/news/show/25665.html>. To schedule an interview, please contact Natasha Altamirano, the Tax Foundation’s Manager of Media Relations, at (202) 464-5102 or naltamirano@taxfoundation.org.

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