

Two tax reform plans with sharply different views of where federal income tax policy should head have been introduced in Congress, one by Rep. Charles Rangel (D-NY) and the other by a fellow member of the House Ways and Means Committee Rangel chairs, Rep. Paul Ryan (R-WI).

Political analysts say neither plan has a chance of becoming law any time soon, but both plans, introduced in October, could spark debate about how the country should approach income taxation.

Rangel dubbed his proposal (called the Tax Reduction and Reform Act of 2007) "the mother of all tax reforms." He proposes to pay for an \$800 billion (over 10 years) repeal of the Alternative Minimum Tax by imposing a 4 percent tax surcharge on adjusted gross incomes over \$200,000 for married couples. The surcharge would climb to 4.6 percent for those with income of more than \$500,000.

### Surcharges, Corporate Cuts

Households with income of more than \$200,000 would also have to pay rates as high as 19.6 percent on capital gains and dividends, instead of the current rate of 15 percent, under Rangel's plan. Rangel proposes cutting the corporate income tax rate to 30.5 percent from 35 percent but would eliminate some business credits and reductions.

The object, according to Rangel, is to eliminate the alternative minimum tax (AMT) with a new mix of taxes that would be "revenue-neutral" to the federal government.

**Ryan likewise proposes eliminating the AMT, but without replacing potential AMT revenue with new taxes. Rep. Jeb Hensarling (R-TX) and Rep. John Campbell (R-CA) joined Ryan in proposing the AMT fix (called the Taxpayer Choice Act). Highlights include establishing a highly simplified alternative to the current individual income tax and offering taxpayer choice.**

### Simplified System

Under Ryan's proposal, taxpayers could choose either to pay their taxes under the simplified tax or to continue under the existing code. The simplified system would have two income tax rates: 10 percent on taxable income up to \$100,000 for joint filers, and \$50,000 for single filers; and 25 percent on taxable income above these amounts.

"The Democrats believe in doing what they call a 'revenue-neutral' fix to the AMT," Ryan said. "That means staying with whatever law is on the books, which means status quo. This assumes massive tax increases will come in" as a result of Rangel's proposed tax hikes and the expiration of tax cuts that were implemented early in the Bush administration. They are set to expire in 2010.

Ryan points out most small business owners pay taxes as individuals.

"We'd be taxing small businesses at 44.2 percent tax rates" under Rangel's plan, Ryan said. "Rangel is cranking up taxes on the most effective job-producers in our country. He almost declares war on jobs. It's more redistribution of income that ends up smacking the middle class."