

## The Tax Season Cometh

The professional tax organizations to which I belong are all flooding my desk with pleas to write an article about tax legislation currently pending in Congress that will most certainly affect us all.

First, a little practical background. All revenue bills (meaning taxes) originate in the Ways and Means of the House of Representatives. That arrangement comes straight out of the U.S. Constitution, which we all studied in Civics class.

Practically speaking, the House devotes much of the October through December months to the difficult process of keeping our taxes within reason while at the same time raising sufficient revenue to pay the Government's bills.

Most of us don't think about it, but the IRS cannot act until the bills are signed into law. And often special laws called enabling legislation are subsequently required to provide necessary technical "fixes" that were left out of the original legislation.

By necessity, the enabling legislation cannot take place until the original revenue bills are written, approved, and disseminated amongst the various government agencies charged with the responsibility of enacting what is now the law of the land.

All of this goes on against that October through December timetable.

IRS—and other agencies—then must translate this legislation into practical working reality. New forms may be required, and other forms must be modified.

The one tax form we all know—the 1040—is modified almost every year, and in the last few years, the form has been modified at the last minute.

We now live in the Age of E-Filing tax returns, and so a new component to this timetable has been added. The software developers who write the tax preparation and e-filing software must have time to write the software, and more time to test and validate that software.

And after all this is done, the IRS and the states need time to test the integrity and security of those transmissions.

Can you guess where this is all going? I'm writing this article in the 2nd week of December, and important tax legislation has not yet been enacted.

The most important piece of tax legislation is the AMT, or Alternative Minimum Tax. This column is not the vehicle for a discussion of AMT, but here are the essentials.

AMT was enacted in the late 1960's, when it was revealed that the 150 wealthiest families in America paid no income tax. These families had done nothing wrong. Their wealth allowed them to deploy squadrons of tax attorneys and accountants to devise

legal methods of tax avoidance.

AMT was put in place to fix that—to insure that all of us pay. The basic strategy AMT employs hasn't changed in almost 40 years. It does away with personal exemptions and itemized deductions—and a whole bunch of other things, but replaces them with exemption amounts that have been approved by Congress.

The exemption amounts have been sufficiently high to keep most of us below the AMT thresholds—we don't have to worry about it.

But here's the thing. Those exemption amounts haven't changed in years and years and years. And rising incomes have generated a bracket creep that has reached down into the middle class, and will start affecting millions of taxpayers.

Actually, the bracket creep is already here, but it was postponed by last-minute "fix-it" legislation last year. Similar "fix-it" legislation is on the agenda this year, and that's the holdup. This legislation is called The AMT Patch.

And it's not just the AMT Patch that is up in the air. It's also the child tax credit, the child and dependent care credit, the foreign tax credit, and several others.

Here's the prospective damage, according to the National Association of Tax Professionals. "If the AMT patch is not enacted soon, 23 million unsuspecting middle-class taxpayers will face unintended higher taxes. Another 25 million taxpayers will face higher taxes because [the credits] will expire at the end of 2007.

NATP goes on to say, "IRS could possibly not be ready to accept individual returns until mid-February or early March 2008. The IRS will likely ask that paper returns not be submitted.

Many early return filers will be very disappointed because refunds will not be processed in a timely way.

My personal guess? The AMT Patch will be enacted, and the credits will be extended in some form. After all, we are facing an election year, and no elected official will want to run next year after voting for a tax increase.