will be a period for the transaction of morning business, with Senators permitted to speak for up to 10 minutes each.

The Senator from Iowa is recognized.

Mr. GRASSLEY. I think the Senator from North Dakota wanted to be recognized.

Mr. DORGAN. I ask unanimous consent that following the presentation of my colleague Senator GRASSLEY of Iowa, I be recognized for a period of 20 minutes in morning business.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

ALTERNATIVE MINIMUM TAX

Mr. GRASSLEY. Mr. President, lately we have heard a lot about the alternative minimum tax and the difficulties involved in fixing it. Right now is tax time so a lot of people are going through the process of determining whether they owe the alternative minimum tax. I will visit with taxpayers about that. At another time I will go into greater detail regarding some of these problems and what we need to do to fix the alternative minimum tax.

Right now I want to explain how we got into this situation. Of course, as with anything, it would be foolish to go forward on this issue without looking back to see how we got to where we are now, after 40 years of the alternative minimum tax. The alternative minimum tax, then, obviously has been with us for that long a period of time.

The individual minimum tax was the original name of the alternative minimum tax and was enacted first in 1969. This chart I am displaying highlights a few of the important and most recent milestones in the evolution of the AMT. I will not go into each of those milestones in detail, but by looking at the chart you can see the AMT has not been a constant. There has been an alternative minimum tax, but it has had some changes in the last 38 years.

First, the history of the AMT. In the 1960s, Congress discovered only 155 taxpayers—all people with incomes greater than $200,000 a year—were not paying any taxes whatever. These taxpayers were able to use legitimate deductions and exemptions to eliminate their entire tax liabilities—all legally. To emphasize, what they were doing was not illegal, but Congress could not justify this at that time and it determined at that time that wealthy Americans ought to pay ‘‘some’’ amount of tax to the Federal Government regardless of the amount of legal ways of not paying tax.

When Congress decided to do this, it was calculated only 1 in 500,000 taxpayers would ever be hit by the alternative minimum tax. According to the Bureau of Census, we had at that time about 203 million people compared to 300 million today. Making the assumption that every single American was a taxpayer, the individual minimum tax was originally calculated to affect only 406 people. We get that by dividing 203 million by 500,000. In 1969 Congress was motivated by the situations of the 155 taxpayers to enact a tax calculated to impact about 406 people.

Clearly, the situation has changed dramatically in the last 30 years because this year the AMT is going to hit several million taxpayers. Although not its only flaw, the most significant defect of the alternative minimum tax is that it was not indexed for inflation. If it had been indexed for inflation, we would not be dealing with this tax problem and millions of people this year would not have to figure out if they owed the alternative minimum tax.

The failure to index the exemptions and the rate brackets, the parameters of the AMT, is a bipartisan problem. Perhaps a most notable opportunity to index the AMT for inflation was the passage of the Tax Reform Act in 1986. That law was passed by a Democratic House, a Republican Senate, and signed by a Republican President. It is worth pointing out at that time, because of the bipartisan cooperation, indexing was a relatively new concept, and even though they had a bipartisan opportunity, they did not take advantage of it. One can argue that indexing of the AMT should have received more attention, but the fact is it did not then or any time since then, so we have the problems I am discussing today.

Today it is impossible for anyone to use the excuse that indexing is a new concept. Maybe it could be used in 1986. In a regular tax system, the personal exemptions, the standard deduction, the rate brackets are indexed for inflation. Government payments such as Social Security benefits are indexed for inflation and people would be hard pressed to go into most schools and find a student who does not at least know that inflation was something to be avoided or at least to be compensated for through indexing.

Despite what must be a nearly universal awareness of inflation, though, the alternative minimum tax, the Internal Revenue Code equivalent of a time capsule, remains the same year after year as the world changes around it. It must be obvious to everyone that the value of a buck has changed a lot in the last 38 years, and all here are experienced enough to have witnessed that change.

More than anything else, the problem posed by the alternative minimum tax exists because of a failure to index that portion of the Tax Code for inflation. Although $200,000 was an incredible amount of money in 1969, the situation is different today. I am not saying that $200,000 is not a lot of money—because it is, obviously, to most middle-income people a lot of money—but $200,000 is certainly going to buy less today than it did in 1969.

I also emphasize that I am not the only one saying the failure to index the alternative minimum tax for inflation is what is causing it to consume more and more of the middle-income taxpayers. On May 23, 2005, the Subcommittee on Taxation and IRS Oversight, the Committee on Finance, held a hearing entitled ‘‘Blowing the Cover on the Stealth Tax: Exposing the Individual AMT.’’ At that hearing, the national taxpayers advocate Nina Olson said:

> [t]he absence of an AMT indexing provision is largely responsible for increasing the numbers of middle-class taxpayers who are subject to the AMT regime.

Robert Carroll, who is now Deputy Assistant Treasury Secretary for tax analysis and then was in the acting position, same title, testified:

> [t]he major reason the AMT has become such a growing problem is that, unlike the regular tax, the parallel tax system is not indexed for inflation.

We also had at that hearing Douglas Holtz-Eakin, who at that time was director of the nonpartisan Congressional Budget Office:

> If the 2005 [increased AMT] exemptions were made permanent and, along with other AMT parameters, indexed for inflation after 2006, most of the increase over the coming decade in the number of taxpayers with AMT liability would disappear.

Clearly, there is a consensus among knowledgeable people that the failure to index the AMT for inflation has been and continues to be a serious problem and, in fact, for the most part, would be a solution to the problem if you want to maintain the AMT. If you want to argue for doing away with the AMT, that is another ball game.

What makes the failure to index the AMT in 1986 and other years more disastrous is repeated failure to deal with the problem in additional legislation that has actually compounded the problem posed by the alternative minimum tax.

Before I continue, I will catalog the evolution of the alternative minimum tax rate for a moment. The 1969 bill gave birth to the alternative minimum tax which established a minimum income tax rate of 10 percent in excess of the exemption of $30,000. In 1976, the rate was increased to 15 percent. In 1978, graduated rates of 10, 20, and 25 were introduced. In 1982, the alternative minimum tax rate was set at a flat rate of 20 percent and was increased to 21 percent in 1986. This is not a complete list of legislative changes and fixes, and I am sure no one wants me to recite a full list but, very importantly, I want to make sure that everyone realizes Congress has a long history of trying to fiddle with the AMT in various ways but without doing anything permanent to it. Hence, we are here again this year considering what to do.

Now, a great detail on recent bills impacting the AMT. In 1990, the Omnibus Budget Reconciliation Act is a result of the famous Andrews Air Force summit between President Bush and Democratic leaders on Capitol Hill. Probably Republicans were involved, as well. That legislation raised the alternative minimum tax rate from 21 percent to 24 percent and did not adjust the exemption levels. That means every person who had been hit by the AMT would continue to be hit by the AMT but be hit harder.

Then we had the same title, but in 1993 we had the Omnibus Budget Reconciliation Act. The exemption level was increased to $33,750 for individuals and $45,000 for joint returns, but that was accompanied by yet an additional rate increase. In 1993, the tax increase passed this Senate with just Democratic votes for it. No Republican voted for it.

Once again, graduated rates were introduced, except this time they were 26 percent and 28 percent. By tinkering with the rate and exemption levels of the alternative minimum tax, these bills were only doing what Congress has been doing on a bipartisan basis for almost 40 years, which is to undertake a wholly inadequate approach to a problem that keeps getting bigger and bigger and bigger.

Aside from this futile tinkering that has been done every few years, Congress has, in other circumstances, completely ignored the impact of the tax legislation on taxpayers caught by the alternative minimum tax. In the 1990s, a series of tax credits, such as the child tax credit and lifetime learning credit, were adopted without any regard to the alternative minimum tax. The alternative minimum tax limited the use of nonrefundable credits, and that did not change. In other words, because of the AMT, we did not accomplish the good we wanted to with those credits for lower middle-income and lower income people. Congress quickly realized the ridiculousness of this situation and waived the alternative minimum tax disallowance of nonrefundable personal credits, but it only did it through the year 1998.

In 1999, the issue again had to be dealt with. The Congress passed the Taxpayer Refund and Relief Act of 1999. In the Senate, only Republicans voted for that bill. That bill included a provision to do what I would advocate we ought to do right now: repeal the alternative minimum tax. If President Clinton had not vetoed that bill, we would not be here today. But we are here today with a worse problem.

Later, in 1999, an extenders bill, including the fix, to fix it good through 2001, was enacted to hold the AMT back for a little longer; in other words, not hitting more middle-income people.

In 2001, we departed from these temporary piecemeal solutions a little bit—at least a little bit—for 4 years with the Economic Growth and Tax Relief Reconciliation Act of 2001. That 2001 bill permanently allows the child tax credit, the adoption tax credit, and the individual retirement account contribution credit to be claimed against a taxpayer's alternative minimum tax. While this certainly was not a complete solution, it was a step in the right direction.

More importantly, the 2001 bill was a bipartisan effort to stop the further intrusion of the alternative minimum tax into the middle class. The package Senator BAUCUS and I put together that year effectively prevented inflation from pulling anybody else into the alternative minimum tax through the end of 2005.

Mr. President, I ask unanimous consent for 3 more minutes.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. GRASSLEY. Our friends in the House originally wanted to enact a hold harmless only through the end of 2001, while Senator BAUCUS and I were trying to do it through 2005. We got the final bill the way Senator BAUCUS and I wanted it. So it was not a problem then until the year 2005.

Since the 2001 tax relief bill, the Finance Committee has produced bipartisan packages to continue to increase exemption amounts to keep taxpayers ahead of inflation, with the most recent being the Tax Increase Prevention and Reconciliation Act of 2005, which increased the AMT exemption to $62,550 for joint returns and $42,500 for individuals through the end of 2006.

These packages put together since 2001 are unique in that they are the first sustained attempt undertaken by Congress to stem the spread of the AMT through inflation and hitting more middle-income taxpayers. Admittedly, these are all short-term fixes, but they illustrate a comprehension of the AMT inflation problem and what needs to be done to solve it.

So this leads us to the present day and the situation we currently face. In 2004, the most recent year for which the IRS has complete tax data, more than 3 million families and individuals were hit by the AMT. And those figures for each State are shown on this chart behind me. You can see a breakdown by State of families and individuals who paid the alternative minimum tax, even with our hold-harmless provisions in place.

This does not even begin to hint at what will happen if we do not continue to protect taxpayers from the alternative minimum tax. Barring an extension in the hold harmless contained in the 2006 tax bill, AMT exemptions will return to their pre-2001 levels. At the end of 2006, provisions allowing nonrefundable personal tax credits to offset AMT tax liability expired. If further action is not taken, it is estimated that the AMT could claim 35 million families and individuals by the end of this decade. That is just 3 years away. Think of it: a tax originally conceived to counter the actions of 155 taxpayers in 1969 could hit 35 million filers by the year 2010—a well-intentioned idea 40 years later with unintended consequences. Some analyses show that in the next decade, it may be less costly to repeal the regular income tax than the alternative minimum tax.

Aside from considering the increased financial burden the AMT puts on families, we also should consider the opportunity cost. Because the average taxpayer spends about 63 hours annually complying with the requirements of the alternative minimum tax, that is an awful lot of time that could be more productively used elsewhere.

As I have illustrated, the AMT is a problem that has been developing for a while. Thirty-eight years down the road are we now. On numerous occasions, Congress has made adjustments to the exemptions and rates, though not as part of a sustained effort to keep the alternative minimum tax from further absorbing our Nation's middle class.

Despite these temporary measures, the AMT is still a very real threat to millions of middle-income taxpayers who were never supposed to be subjected to a minimum tax. That the alternative minimum tax has grown grossly beyond its original purpose—which was to ensure the wealthy were not exempt from an income tax—is indisputable and that the AMT is inherently flawed would seem to be common sense.

Despite a widespread sense that something needs to be done, there is still disagreement on what needs to be done. Over the course of a few more remarks on this floor, in days to come, I will address some of those things we ought to do. But this is a case where well-intended legislation not being paid attention to has turned out to be a major tax problem in this country.

Mr. President, I yield the floor.

The ACTING PRESIDENT pro tempore. The Senator from North Dakota is recognized under the consent for 20 minutes.

CONTINUING APPROPRIATIONS

Mr. DORGAN. Mr. President, I rise to talk about two issues today. First, I will talk about the continuing resolution that will be on the floor of the Senate that we will likely finish this week.

I know there is some consternation about the fact that a continuing resolution is being done, but there was no choice. We were left with an awful mess. This Congress was left with a mess where 10 appropriations bills were completed by the Senate Appropriations Committee but never brought to the floor of the Senate. They should have been done by October 1, signed by the President. We are now months into the new fiscal year, and those appropriations bills, done by the previous majority here in Congress, were not completed, and so we are left with a mess.

We have put together, as best we can, a continuing resolution. We have made some adjustments to that continuing resolution. Earmarks are gone. These are adjustments to avoid some catastrophic things that would have happened without adjustments.

I wish to mention with respect to the energy and water chapter of that resolution that we have done a number of