as pension funds, university endowments, and individuals who have at least $5 million in investments. By taking investment dollars only from sophisticated investors, hedge funds can avoid complying with SEC regulations that apply to mutual funds and other investment funds available to the general public.

Last year, press reports indicate that the top U.S. hedge fund manager made $1.7 billion in compensation. That's billion. The average compensation for the top 25 hedge fund managers was around $570 million. Each. Think about that. For comparison, the 2006 median income for U.S. households was less than $49,000, which is less than one ten thousandth of the income collected by those top hedge fund managers.

Hedge fund managers make their money by charging their clients a management fee equal to 2 percent of the funds provided to the hedge fund for investment and, in addition, by taking 20 percent of the profits earned from those investments. The 20 percent share of the investment returns from hedge funds is known as ''carried interest.'' Under current law, most hedge fund managers claim that this carried interest qualifies as capital gains subject to a maximum tax rate of 15 percent, rather than as ordinary income subject to a maximum tax rate of 35 percent.

When hedge fund managers take 20 percent of their clients' investment returns, they are being compensated for managing those client funds; they are not collecting profits from investing their own money. Characterizing this compensation as capital gains is a tax dodge that has been allowed to go on for too long. This tax loophole allows hedge fund managers to pay a 15-percent capital gains rate on millions—or even billions—of dollars in income. Meanwhile, a receptionist in the same office receiving a $50,000 salary pays at a regular tax rate. Making a salaried worker pay a higher tax rate than the managers who are making hundreds of millions of dollars is a tax travesty, and it has got to stop.

The House bill would restore fairness by putting an end to this tax loophole. The second provision of the House bill would make it clear that the 20 percent carried interest is, in fact, taxable as ordinary income, making hedge fund managers pay the same income tax rates as ordinary Americans. If enacted, it would raise about $25.6 billion over 10 years, half the cost of fixing the AMT.

The third provision in the House bill would address a smaller group of hedge fund managers—those routing their compensation through offshore corporations located in tax havens.

The hedge fund managers participating in this tax dodge typically don't live or work in the tax haven where the offshore corporation is incorporated. The offshore corporation often doesn't have any physical presence in the tax haven either—it functions as a shell company with no full-time employees or physical office. The whole arrangement is a phony setup to enable the hedge fund manager to appear to get paid outside the United States, direct the offshore corporation to place the compensation in an offshore retirement plan, and defer payment of any U.S. taxes on that compensation until sometime in the future. In the meantime, the offshore corporation can invest the funds tax free and accumulate investment returns for the hedge fund manager. The result of all this tricky maneuvering is that hedge fund managers are able to defer U.S. income taxes and circumvent parts of the U.S. Tax Code that limit tax free contributions to retirement plans. Some are able to defer paying taxes on hundreds of millions of dollars of annual income.

The House bill would put an end to this offshore tax dodge by requiring hedge fund managers to pay taxes on any earnings from their deferred offshore compensation, as those earnings accrue. The tax-free ride would be over. If enacted, this provision would raise $23.8 billion over 10 years.

Requiring accurate reporting of stock profits, applying the same tax rates to carried interest as to the income of ordinary Americans, and taxing deferred offshore investment income are provisions that promote tax fairness and make a lot of sense. Together, these three House provisions would raise more than $52 billion over 10 years, enough to pay for the entire $51 billion AMT fix so that we can protect middle class Americans from the AMT sledgehammer without running up the national debt.

So why is the Senate hesitating to enact the House bill?

Some claim that forcing hedge fund managers to pay their fair share of taxes would somehow put an end to the capitalist spirit in America. Whatever the merits of the argument for lower taxes on capital gains, those arguments certainly do not make any sense when applied to income earned for servicing and managing other peoples' capital. Surely the person who earned $1.7 billion would have had that same capitalist spirit and zeal for investing whether his take home pay was $1.7 billion or $1.1 billion.

Some of my colleagues argue that the Senate just should add the $51 billion cost of the AMT fix to the deficit and leave it at that. But when some taxpayers are given a free ride, the rest will inevitably be asked to make up the difference, whether it is through increased debt or higher taxes down the road. We all know that there is no free lunch, and there is no free tax cut, and history shows that when upper income groups avoid paying taxes, the middle income groups end up footing the tax bill. Unfortunately, some continue to grasp onto the fiscally irresponsible attitude that, in just the last 7 years, has added $3.5 trillion to the $9 trillion debt ditch already threatening the economic well-being of the next generation. And they would dig that debt ditch deeper—instead of paying for the AMT tax cut—primarily to protect hedge fund managers from paying their fair share of taxes.

I don't understand how some can claim that the deficit matters when the debate is over $22 billion in appropriations for health, education or veterans, but not when the issue is $51 billion in tax benefits for the wealthiest Americans.

The bottom line is that the House found the political will to impose tax fairness on hedge funds when they passed H.R. 3996. The Senate can and should do the same. If we don't—if we give in to the pressure to break the pay-as-you-go rules that have so far held firm in the Senate—it will be that much easier to break the rules again in the future. Giving up on pay-go would let down American taxpayers who are counting on us to act responsibly and pay for what we legislate.

If the Republican filibuster continues and succeeds, and if we cannot muster 60 votes to break it, we would then be forced with the choice of raising taxes on 23 million working families or violating our pay-as-you-go rules. I would protect my constituents at the expense of an even deeper national debt. But we don't have to go that way, and we shouldn't. With the House bill we can protect our constituents from unintended tax increases, we can ensure fairness in the tax code, and we can avoid increasing the Federal deficit.

I urge my colleagues, Republicans and Democrats, to take a look at the tradeoffs presented in the House bill. The House bill will allow us to fix the AMT for a year, and at the same time ensure that the wealthiest among us contribute their fair share to this great country. I urge my colleagues to take seriously Congress's commitment to fiscal responsibility as well as fairness, and to pass H.R. 3996.

I yield the floor.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. REID. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

CONCLUSION OF MORNING BUSINESS

Mr. REID. Madam President, I ask unanimous consent that morning business be terminated.

The PRESIDING OFFICER. Without objection, it is so ordered.

Morning business is closed.

TEMPORARY TAX RELIEF ACT OF 2007—MOTION TO PROCEED

The PRESIDING OFFICER. Under the previous order, the Senate will resume consideration of the motion to