Tax Policy

Tax policy has an impact on the lives of all Americans. Whether one is buying a home, having a child, trading stocks, or saving for a rainy day, tax implications will affect an individual's future finances and therefore must be weighed. While taxes are necessary to generate revenue to ensure the strength and security of our country, our tax code should be simple and fair.

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- Estate Tax
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- Tax Reform

Additional resources:

- Internal Revenue Service
- Joint Committee on Taxation

Tax Cuts

Since taking office, President Bush has made cutting taxes a major theme of his Administration. While most Americans would agree that they pay too much in taxes, the tax cuts pursued by this Administration have favored the wealthiest in America while leaving those in low- and middle-income brackets with limited relief.

The Bush tax cuts have helped turn record surpluses into record deficits, adding more than $3 trillion to the national debt that will be the burden of future generations. In 2008, interest on the debt alone will cost $256 billion. To help cover the cost of the tax cuts, the Administration has imposed steep cuts in services such as Medicaid, student loans and food stamps.

These tax cuts have also had the unintended effect of forcing more middle-income taxpayers to pay the Alternative

Minimum Tax (AMT), an alternative tax method originally designed to ensure that the very wealthy did not escape their full tax liability by using tax shelters and by claiming excessive deduction. The result for some middle-income taxpayers is that many important tax deductions are lost to the AMT.

Rep. Eshoo supports tax cuts that are fiscally responsible by being fully offset and that target tax relief for the people who need it most.

Alternative Minimum Tax (AMT)

The AMT is a complicated and frequently inequitable tax which has created significant tax burdens for many taxpayers across the country. The AMT was originally designed to prevent high-income taxpayers from escaping their "fair" share of the income tax burden through excessive deductions and tax shelters. Under the AMT, deductions from taxable income are not permitted, including deductions for State and local taxes. Therefore, Californians are hit especially hard when they are forced to pay the AMT.

The alternative minimum tax for individuals is calculated in the following manner. First, an individual adds back various tax preference items to his or her taxable income under his regular income tax. This gross amount then becomes his tax base for the AMT. Next, the amount of the basic exemption is calculated and subtracted from the AMT tax base. A two-tiered tax rate structure of 26 and 28% is then assessed against the remaining AMT tax base to determine AMT tax liability. The taxpayer then pays whichever is greater, his regular income tax liability or his AMT tax liability.

Because the AMT was never indexed for inflation, every year more and more taxpayers are threatened by AMT liability, whether they know it or not. Congress has continued to intervene on a temporary basis to spare middle-income taxpayers, while ignoring the long-term implications of this tax.

Rep. Eshoo believes that a long-term fix is critical. Although the Administration concurs that a long-term solution is needed, they continue to fail to plan for such a step. While the President's FY08 Budget proposal includes another one-year fix for the AMT, it includes no AMT relief for future years in order to mask the size of the deficit and pay for an extension of the 2001 and 2003 tax cuts.

For a Fact Sheet on the Extension of AMT Relief in 2008 from the Committee on Ways and Means, click here.

AMT and Stock Options

The AMT has also had a disastrous impact on individuals who have participated in employee incentive stock options (ISOs), which are common in Silicon Valley. Employees who receive ISO's pay the AMT on the difference between market value of the stock at the time of exercise and the price they paid through their ISO. For example, if an employee exercises an option to buy stock at $1 per share and the current market value were $10 per share they would be liable for AMT payments on $9 per share.

Unfortunately, because the tech bubble burst after many people had exercised their stock options but before they actually sold their stock, some taxpayers are literally facing hundreds of thousands of dollars in tax liability based on income they have never seen. Despite this fact, there is nothing in current law that allows these stockholders to recoup the taxes they paid on profits they never realized.

In the 109th Congress, Rep. Eshoo cosponsored H.R. 3385, the AMT Credit Fairness Act, to provide refunds to taxpayers with AMT credits more than four years old. Qualifying taxpayers would receive rebates at either 20 percent or $5,000 per year, whichever is greater.

Because of the importance of this issue, Rep. Eshoo joined her Colleagues in sending a letter to Conferees on H.R. 4297, the Tax Relief Act, urging for the inclusion of H.R. 3385 in the final Conference Report on this legislation. While H.R. 3385 was not included in the Conference Report, Rep. Eshoo has pledged to continue to work to provide relief to these taxpayers.

Additional resources:

- Rep. Eshoo's letter to Conferees regarding inclusion of the AMT into the Conference Report to H.R. 4297

- Rep. Eshoo's letter to Conferees regarding the inclusion of H.R. 3385 into the Conference Report of H.R. 4297

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IRS's "AMT Assistant"

- Fact Sheet on the Extension of AMT Relief in 2008

Estate Tax

The estate tax is assessed on estates valued at over $2 million for individuals upon the death of the owner. While Rep. Eshoo does not believe in unlimited sums being transferred from one generation to the next without any tax, she has supported efforts to provide relief from the estate tax to ensure that families and small business owners can transfer their business assets and homes to their heirs. This is a particularly important issue for California's 14th Congressional District where property values are high.

Under provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the estate tax is gradually phased out and ultimately zeroed-out by January 1, 2010. However, because EGTRRA expires December 31, 2010, the estate tax would then revert back to its original levels. Rep. Eshoo voted against this bill because she believed a total repeal was excessive and that reinstating the full tax in 2010 was unfair.

In the 109th Congress, Rep. Eshoo cosponsored legislation to increase the current exclusion amounts to $3 million for individuals in 2006 and makes the 2009 level permanent at $3.5 million, thereby exempting 99.7 % of all estates in America from estate tax liability. Instead, the House passed H.R. 8, the Estate Tax Permanency Repeal Act. This legislation completely repeals the estate tax for all estates, including billionaires, at a cost of $292 billion over the next ten years. Rep. Eshoo opposed passage of this legislation, which failed to win approval in the Senate.

Research and Development Tax Credit

The Research and Development (R&D) tax credit provides companies with incentives to invest in research and development activities. This credit has proven to be enormously successful in assisting companies devote capital to generating the new products and ideas that energize our entire economy. Unfortunately, Congress has continued to provide this credit through periodic extensions.

Rep. Eshoo supports making the R&D tax credit permanent to provide companies with an important incentive to invest in the future technologies of this country. A permanent R&D tax credit is a key element of the House Democrats' Innovation Agenda, which Rep. Eshoo helped craft.

Rep. Eshoo has also called for renewing the current R&D tax credit which expired on December 31, 2005. Unless the credit is extended, companies will lose a very important incentive to investing in the future technologies of this country.

Additional resources:

- Rep. Eshoo's letter to House leaders on the R&D tax credit

Tax Reform

Among the President's announced goals upon taking office was reforming our current tax code. To that end, the President established a panel to analyze our current system. The panel was ordered to issue a revenue neutral report that simplifies the current code, reduces the cost of compliance, shares the tax burden in an appropriately progressive manner, promotes long-run economic growth and job creation, and better encourages work, saving, and investment.

In November of 2005, the Panel issued its report and two proposals for reform; the Simplified Income Tax Plan and the Growth and Income Tax Plan. Both plans share several common points (such as the elimination of the Alternative Minimum Tax); however, they differ in the taxation of businesses and personal income. More information on the panel, its report and subsequent proposals can be found at www.taxreformpanel.gov/index.shtml.

Rep. Eshoo remains very concerned about some of the Panel's recommendations, particularly limitations on mortgage deductions, however, these proposals are simply that: proposals. In order to change any aspect of our tax code, legislation would have to be introduced and passed into law. To date, no legislation has been introduced to act upon the Panel's recommendations.