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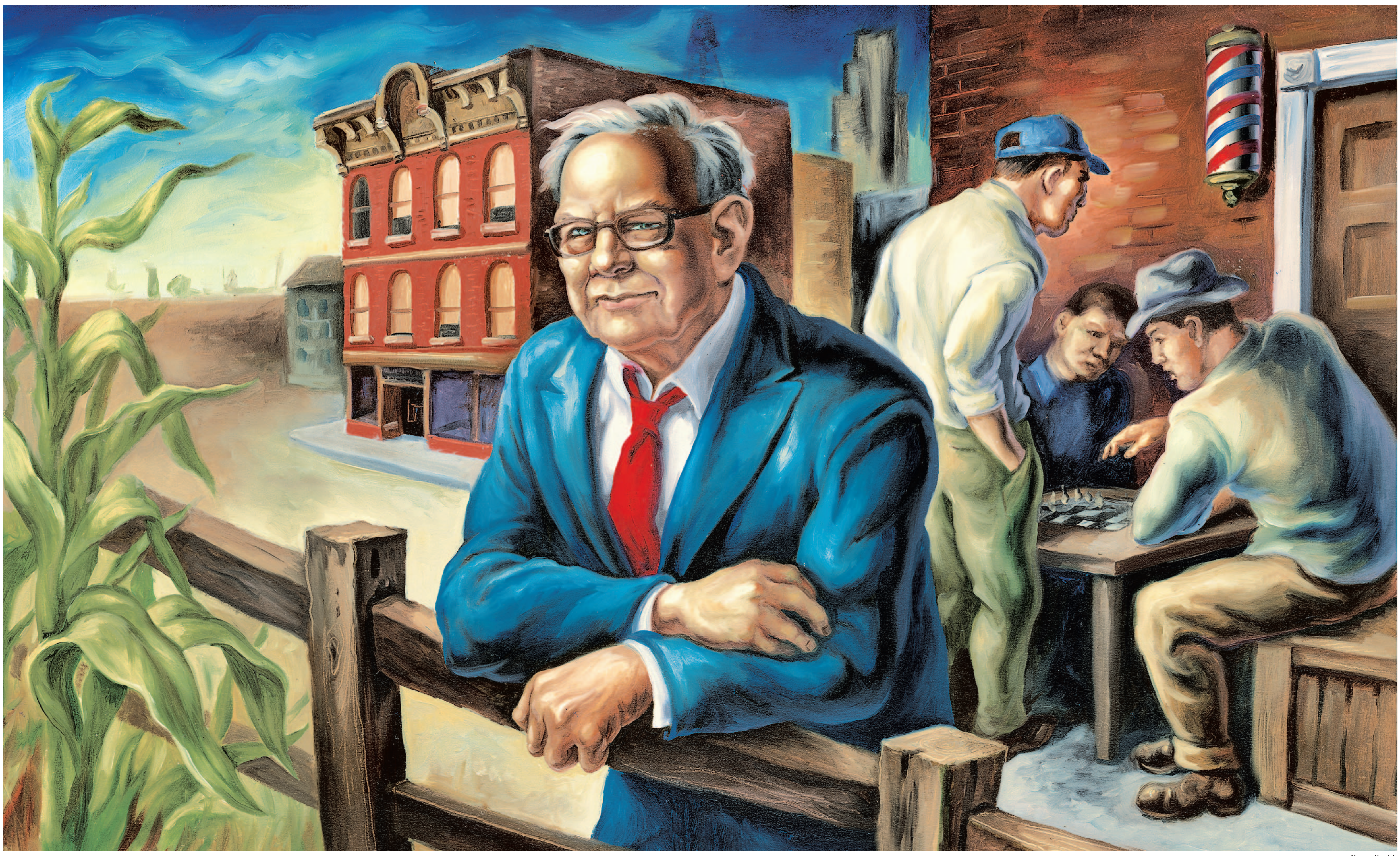


Owen Smith

The Oracle of Omaha's Latest Riddle

"At our annual meetings, someone usually asks, 'What happens to this place if you get hit by a truck?' I'm glad they are still asking the question in this form. It won't be too long before the query becomes: 'What happens to this place if you don't get hit by a truck?'" **Warren E. Buffett**, 1993

By TIMOTHY L. O'BRIEN

OMAHA

WHEN **Berkshire Hathaway** shareholders gather here in three weeks for their annual meeting, they will be treated to another homespun video starring the company's chairman, Warren E. Buffett. This year's plot is still a secret, but Mr. Buffett's co-star in last year's video was Arnold Schwarzenegger, the governor of California.

Mr. Schwarzenegger appeared in Army fatigues and took Mr. Buffett — who may be the Charles Atlas of investors but who has the musculature of a chipmunk — through a grueling workout to punish him for criticizing inequities in California's property tax system. At the end of the video, Mr. Buffett graces the cover of a fitness magazine, sporting six-pack abs and rippling biceps, much to the governor's surprise.

Amid the self-deprecating humor and sly winks at the Berkshire family of companies, Mr. Buffett's annual meetings, which attendees fondly call the Woodstock of American capitalism, are about much more than money. Each gathering is also a tutorial overseen by Mr. Buffett, a man widely regarded as a financial genius, a model for corporate integrity and someone who has spent his 74 years trying to integrate personal values such as honesty, trust and openness with the business, political and public worlds around him.

"What Warren's trying to do with his life is to teach a grand lesson: the right way to run a business and the right way to live a life," said Charles T. Munger, Berkshire's vice chairman and one of Mr. Buffett's closest friends. "A lot of people are coming to Omaha to reinforce the right way to live and the right way to run a company. I jokingly refer to it as a catechism."

Tomorrow morning, the Buffett catechism will come under scrutiny in New York. The Justice Department, the Securities and Exchange Commission and New York's attorney general, Eliot Spitzer, have asked Mr. Buffett to meet with them in Manhattan to discuss a wide-ranging investigation of insurance industry practices, some of which involve a Berkshire subsidiary. Mr. Buffett is a witness in the investigation, not a target, and several people involved in the inquiry said that there was no evidence that Mr. Buffett had either authorized or had knowledge of any malfeasance.

But the investigation has forced Mr. Buffett, who has amassed a personal fortune that Forbes pegs at $41 billion, to respond to questions about accounting shenanigans and corporate subterfuge, practices that he has long railed against. People close to Mr. Buffett also say the investigation has left him fearful that his sterling reputation — built patiently and purposefully during five decades as a professional investor — will be sullied by events that have largely taken him by surprise.

Others around Mr. Buffett, in Omaha and elsewhere, acknowledge the potential risks that the investi-

Continued on Page 8

INSIDE

ECONOMIC VIEW

EDMUND L. ANDREWS

A Tax Increase That Bush Didn't Mention

WASHINGTON

CYNICS have long predicted that the Bush administration, plagued by budget deficits, will eventually start raising taxes. But now it is becoming clear how it would do so: the alternative minimum tax.

Baffling in its complexity and often bizarre in its impact, the alternative minimum tax is a giant undeclared tax increase that will ensnare tens of millions of moderate-income families in the next several years.

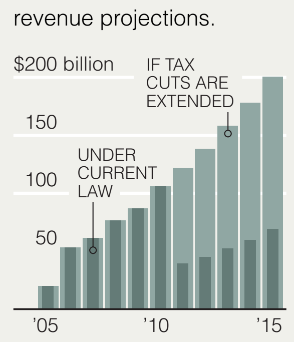
It was created in 1969 to prevent the very rich from using tax deductions to avoid paying a fair share of taxes. But when the deadline for filing income tax returns arrives on Friday, the alternative minimum tax will require 2.9 million families to pay an average of about $6,000 more than what they would owe under traditional calculations

That is just the start. If current law remains unchanged, the alternative minimum tax is expected to wring an extra $33.9 billion from 18 million households in 2006. In 2010, it will rake in an additional $100 billion, and by 2015 an extra $200 billion.

Make no mistake: no one says they want that to happen. But it is one thing to rein in or eliminate the tax itself, and an entirely different matter to give up the money that it would generate.

The Other Income Tax

Alternative minimum tax revenue projections.



Source: Tax Policy Institute

President Bush has promised to fix the alternative minimum tax as part a fundamental overhaul of the tax code, and he has ordered a bipartisan advisory panel to come up with recommendations by the end of July.

But in giving the panel its marching orders, White House officials made it clear that they are counting on the extra money regardless of what happens to the alternative tax. Under the president's instructions, the panel's recommendations on addressing the alternative minimum tax are supposed to be "revenue neutral," neither raising nor lowering taxes, and to assume that his income-tax cuts will be made permanent rather than expire in 2010, as required under current law.

Making those ordinary income-tax cuts permanent would reduce the amount of available revenue by about $1.8 trillion over 10 years. But White House officials told the panel that any change to reduce or eliminate the alternative minimum tax would have to be offset by higher taxes someplace else.

"My understanding is that any reform in the A.M.T. that loses money would have to be made up with offsetting revenue," said Elizabeth Garrett, a panel member and a professor of law at the University of Southern California.

Jeffrey F. Kupfer, executive director of the tax panel and a former Treasury official, confirmed that interpretation. "Our mandate is to be revenue-neutral, and we are interpreting that with respect to the president's policy baseline, which does not include a permanent fix to the A.M.T.," he said in an interview last week.

Tax experts have long complained that the alternative minimum tax is a "stealth tax increase," one that Congress never intended and that is likely to catch millions of taxpayers by surprise. But a tax increase through tax reform could be even stealthier. If the alternative tax is reduced, the offsetting revenue increases are likely to be buried in so many other changes that most people would never know what hit them.

Seen or unseen, the looming tax increases are almost as large as the president's tax cuts. Leonard E. Burman, a senior fellow at the Urban Institute, estimated that the government would have to raise ordinary income tax rates substantially in every bracket to offset the money lost in each bracket by the elimination of the

Continued on Page 4

GRETCHEN MORGENSON

Charity Begins At the Board. Just Ask A.I.G.

IT has to have been a bewildering few weeks for Maurice R. Greenberg, the former chief executive of the **American International Group.** One minute his company is producing record revenues and he is high-fiving himself on Congress's passage of tort reform, one of his passions. The next minute he is dumped from the company he has run for almost 40 years and finds himself facing an under-oath interview with prosecutors from the Justice Department, Securities and Exchange Commission and the New York attorney general's office, the same guys he used to bully on a regular basis.

You almost feel sorry for the man. Exalted for so long, he forgot what it was like to be questioned.

It is impossible to get inside someone else's head, of course, but one of the most puzzling aspects of Mr. Greenberg's downfall, to him at least, might have been the role his 10 outside directors played in it. The people who ultimately pushed him from power were, after all, his hand-picked colleagues, people who had been with him, in some cases, for more than a decade. Many of them were also people he encountered in other high-powered orbits, and he donated generously to their favorite causes.

A.I.G.'s directors include M. Bernard Aidinoff, retired partner at Sullivan & Cromwell; Pei-yuan Chia, retired vice chairman of Citicorp; Marshall A. Cohen, former chief executive of the Molson Companies, a Canadian brewer; William S. Cohen, the former senator and secretary of defense; Martin S. Feldstein, the Harvard economist who is mentioned as a possible successor to Alan Greenspan.

Joining those five luminaries are Ellen V. Futter, president of the American Museum of Natural History in New York; Carla A. Hills, former United States trade representative; Frank J. Hoenemeyer,

Continued on Page 8