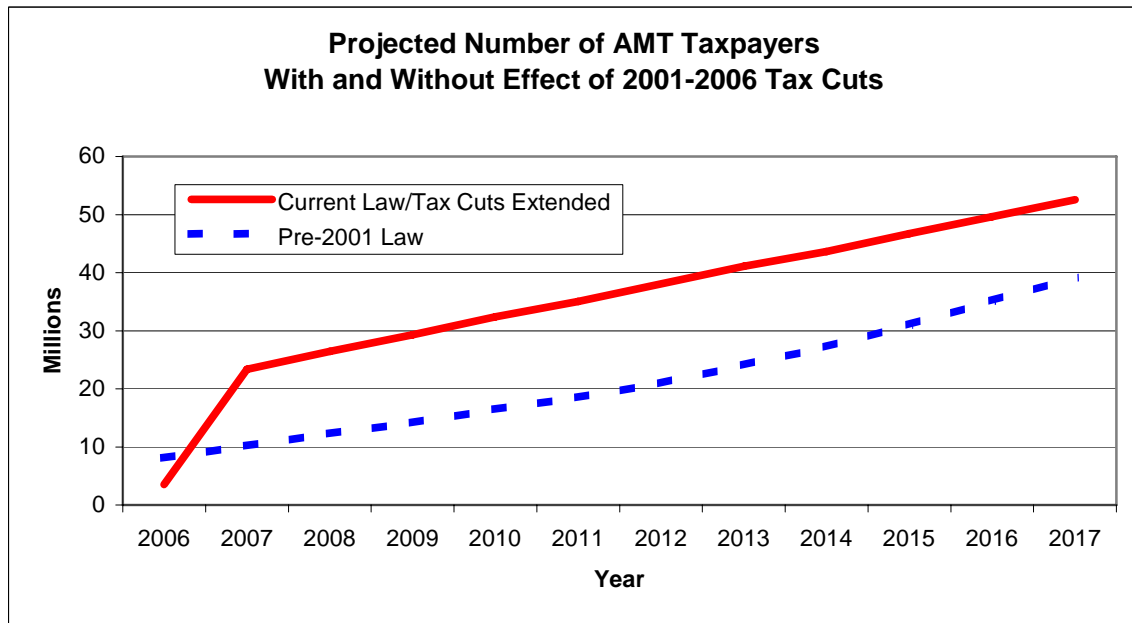


The Individual Alternative Minimum Tax (AMT): 11 Key Facts and Projections
Len Burman, Julianna Koch, and Greg Leiserson
December 1, 2006

The individual alternative minimum tax (AMT) was originally enacted in 1969 to guarantee that high-income individuals paid at least a minimal amount of tax. Middle- and upper-income taxpayers must add a number of so-called “preference items” to their taxable income, subtract a special AMT exemption, and calculate their tax according to the AMT tax schedule. If the tax under that schedule is higher than the regular income tax, taxpayers pay the difference as AMT.



1. AMT is exploding. In 2007, unless Congress acts, 23.4 million taxpayers will be affected by the AMT. In 2006, only 3.5 million taxpayers will owe the tax because of a temporarily higher exemption, which expires at the end of the year. By comparison, back in 1970, just 20,000 taxpayers were affected. If the 2001-2006 tax cuts expire as scheduled at the end of 2010, 39 million taxpayers (more than one-third) will be hit by the AMT in 2017. If the tax cuts are extended, the number jumps to 53 million taxpayers (49 percent). ([Tables T06-0266](#) and [T06-0267](#))

2. The AMT is encroaching on the middle class. Although the AMT is highly progressive, the distribution of AMT liability will shift toward tax units with lower incomes. In 2006, tax units with \$500,000 or more in income will pay 47 percent of the tax; by 2010, they will pay only 16 percent. More than 80 percent of households with incomes between \$100,000 and \$200,000 and almost half of those with incomes between \$75,000 and \$100,000 will pay the AMT by 2010 (compared to 4.8 percent and 0.7 percent in 2006). (Tables [T06-0268](#) and [T06-0270](#))

3. The average AMT liability in 2006 is \$6,782. Next year, the average is projected to decline to \$2,985 as millions of middle class families join the ranks of AMT taxpayers. (Table [T06-0269](#))

4. Two main factors behind the explosive growth in AMT: it is not indexed for inflation and the 2001-2006 tax cuts cut regular income tax without a permanent AMT fix. The AMT is not indexed for inflation and, therefore, it affects taxpayers with lower real incomes over time. The 2001–2006 tax cuts more than doubled the projected share of taxpayers who will face the AMT in 2010, from 16.0 percent to 33.6 percent. If the tax cuts had not been enacted and the AMT had been indexed for inflation along with the regular income tax in 1985, the number of AMT taxpayers would have remained between 300,000 and 400,000 through 2010. (Table [T06-0266](#))

5. The AMT raises effective marginal tax rates. Marginal tax rates affect the incentive to work, save, and comply with the tax system. In 2006, 71 percent of AMT taxpayers face *higher* effective tax rates because of the AMT. In 2010, 89 percent will face higher rates. (Table [T06-0271](#))

6. The AMT claws back the 2001 – 2006 tax cuts. In 2010, the AMT will take back almost 28 percent of the regular income tax cut that taxpayers otherwise would have received. Three percent of taxpayers will have their tax cuts completely eliminated by the AMT. This assumes that the AMT remains in full force. If it is scaled back or eliminated, it will turn out that the tax cuts are much more generous than originally estimated. (Table [T06-0272](#))

7. The AMT is notoriously and pointlessly complex. The Internal Revenue Service and the Taxpayer Advocate have flagged the AMT as one of the most complicated tax provisions to comply with and administer. Most people required to fill out the AMT forms end up owing no additional taxes. The AMT also creates complicated interactions with the regular income tax.

8. Because the AMT disallows certain deductions and credits, it hits some taxpayers harder than others. Families with children are more likely to be subject to the AMT than those without children because the AMT eliminates dependent exemptions. Married couples will be more than 12 times as likely as singles to face the AMT in 2010. AMT participation for married families with two or more children and AGI between \$75,000 and \$100,000 will increase dramatically from less than 1 percent in 2006 to 89 percent in 2010. Since the state and local tax deduction is also disallowed by the AMT, residents in high tax states are currently almost three times more likely to face the AMT than those in low tax states. (Table [T06-0268](#))

9. Repeal would be expensive and regressive. Repealing the AMT in 2007 would reduce revenues by \$750 billion through 2016 if the 2001-2006 tax cuts expire as scheduled, and \$1.3 trillion if they are extended. Almost 90 percent of the benefits of repeal would go to households with income above \$100,000 in 2010. (Tables [T06-0266](#) and [T06-0270](#))

10. Simple reforms could spare most AMT taxpayers. Indexing the AMT for inflation and allowing personal credits against the AMT would reduce the number of AMT taxpayers in 2010 by over 85 percent.

11. Paying for reform is a key issue. Without revenue offsets, the reform above would reduce revenues by \$520 billion over the next ten years (if the tax cuts sunset, \$940 billion if they are extended). Rolling back the high-income rate cuts and the lower tax rates on dividends and capital gains enacted since 2001 would offset more than half of the revenue loss. If the tax cuts sunset, repealing the deduction for state and local taxes, as proposed by President Bush’s tax reform panel, would more than offset the cost of reforming or repealing the AMT.

Further Reading:

Burman, Leonard E., William G. Gale, and Jeff Rohaly. 2005. "The Expanding Reach of the Individual Alternative Minimum Tax." (May).

<http://www.taxpolicycenter.org/publications/template.cfm?PubID=411194>

Burman, Leonard E., David Weiner. 2005. "Suppose They Took the AM Out of AMT?" (August).

<http://www.taxpolicycenter.org/publications/template.cfm?PubID=311212>

Leiserson, Greg and Rohaly, Jeffrey. 2006. "The Individual Alternative Minimum Tax: Historical Data and Projections, updated November 2006." (November).

<http://www.taxpolicycenter.org/publications/template.cfm?PubID=9923>

Rueben, Kim. 2005. "The Impact of Repealing State and Local Tax Deductibility." (August).

<http://www.taxpolicycenter.org/publications/template.cfm?PubID=1000818>