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By 2008, the AMT Will Cost More to Repeal Than the Regular Income Tax

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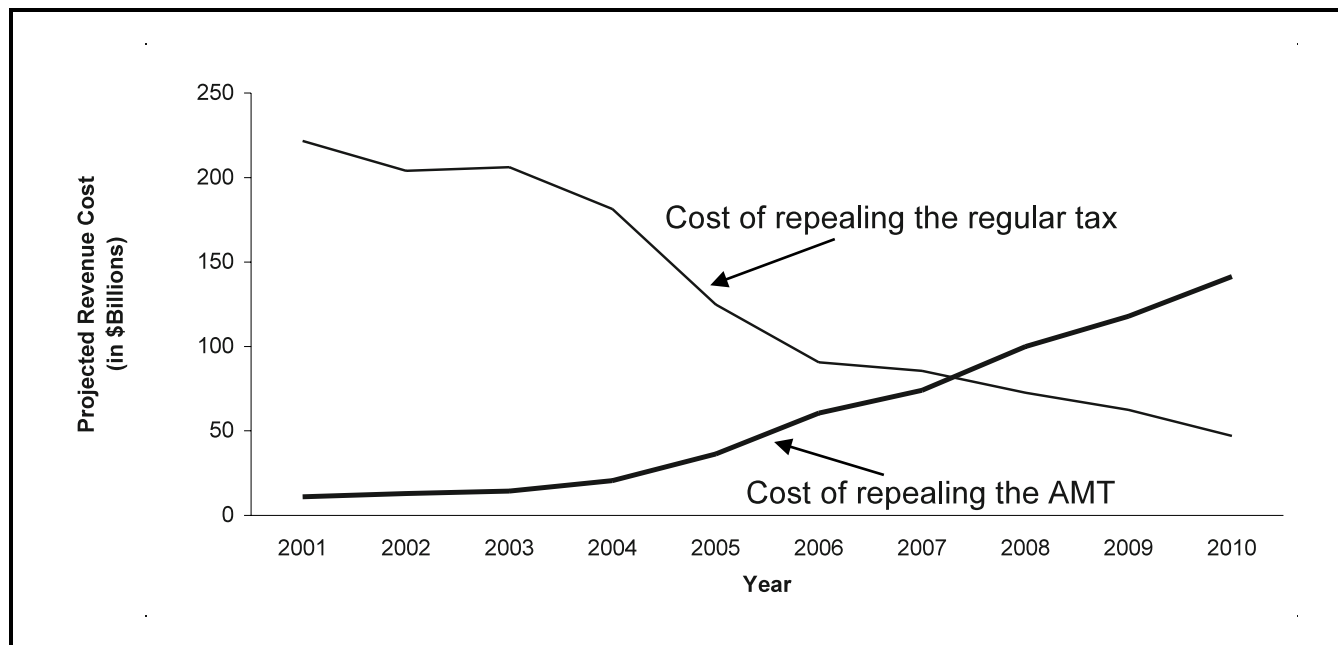
Taxpayers pay alternative minimum tax (AMT) if their AMT liability exceeds their regular income tax. Originally targeted at a few high-income households who paid no federal income tax, this class tax is about to become a mass tax. The projected expansion occurs because the AMT is not indexed for inflation and because last year's tax cut steadily pares regular income tax obligations without providing significant and sustained AMT relief. The increases are troubling because the AMT is notoriously complex and has dubious effects on equity and efficiency.

Barring a change in law, the number of AMT taxpayers will explode from 1.8 million in 2001 to almost 36 million in 2010, according to projections from our

microsimulation model. More than two-thirds of married taxpayers with two or more children will face the AMT by 2010 — including more than 97 percent of those with incomes between \$75,000 and \$100,000. Most remarkably, by 2008, it will cost more to repeal the AMT than to repeal the income tax — \$100 billion versus \$72 billion. Between 2001 and 2010, the annual cost of repealing the AMT will rise from \$11 billion to \$141 billion. Meanwhile, repealing the regular tax (setting the tax rates to zero and repealing all credits) would cost \$222 billion in 2001, but only \$47 billion in 2010. After repeal, the number of AMT taxpayers would rise to 71 million in 2010.

Like all budget projections, this one is highly uncertain, but the trend is not. The AMT is on a path to swamp the income tax unless its underlying defects are addressed soon.

(Source: "The Individual AMT: Problems and Potential Solutions," Burman, Gale, Rohaly, and Harris, Tax Policy Center Discussion Paper No. 5, September 2002.)



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