What is the AMT?

The individual alternative minimum tax (AMT) operates alongside the regular income tax. It requires many taxpayers to calculate their liability twice—once under the rules for the regular income tax and once under the AMT rules—and then pay the higher amount. Originally intended to prevent perceived abuses by a handful of the very rich, it now affects over 4 million filers.

In January 1969, Treasury Secretary Joseph W. Barr informed Congress that 155 taxpayers with incomes exceeding $200,000 had paid no federal income tax in 1966. The news created outrage. That year, members of Congress received more constituent letters about the 155 taxpayers than about the Vietnam War. Congress subsequently enacted an "add-on" minimum tax that households paid in addition to regular income tax. It applied to certain income items ("preferences") that were taxed lightly or not at all under the regular income tax. The largest preference item was the portion of capital gains excluded from the regular income tax.

Congress enacted the modern alternative minimum tax (AMT) in 1979 to operate in tandem with the add-on minimum tax. The main preference items, including capital gains, moved from the add-on tax to the AMT. Congress finally repealed the add-on tax, effective in 1983.

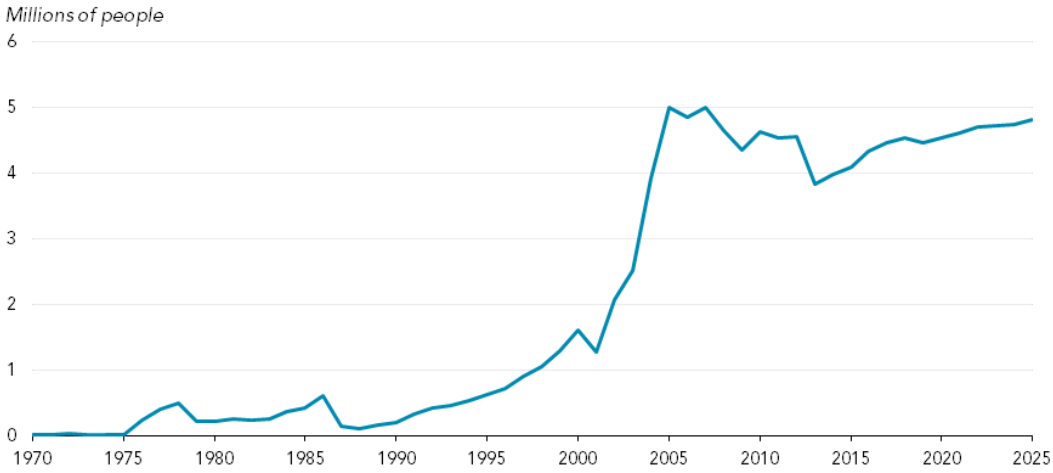
The original minimum tax and the AMT affected fewer than 1 million taxpayers annually through the late 1990s. In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which substantially reduced regular income taxes but provided only temporary relief from the AMT. Over the following decade, Congress repeatedly passed legislation —often at the last possible moment—to temporarily "patch" the AMT by increasing the AMT exemption amount.

Although the patches prevented an AMT explosion, the number of taxpayers affected by the AMT continued to grow throughout the decade (figure 1) because (1) the regular income tax was indexed for inflation, but the AMT was not; and (2) Congress enacted substantial cuts to the regular income tax.

FIGURE 1

Taxpayers Affected by the AMT

1970–2025



Sources: Urban-Brookings Tax Policy Center Microsimulation Model; Harvey and Tempalski (1997); private communication from Jerry Tempalski; and IRS.

Notes: Figures include those who paid the original add-on minimum tax that Congress repealed in 1983. Taxpayers affected by the AMT include those with direct AMT liability on Form 6251 as well as those with lost credits and/or reduced deductions.

The American Taxpayer Relief Act of 2012 (ATRA) enacted a permanent AMT fix by establishing a higher AMT exemption amount, indexing the AMT parameters for inflation, and allowing specified tax credits under the AMT. As a result, the number of AMT taxpayers fell from 4.6 million in 2012 to about 4.1 million in 2015. That number will grow modestly to 4.8 million by 2025.

STRUCTURE

After calculating their regular income tax, many middle- and upper-income taxpayers must add a number of AMT "preference items" to their taxable income, subtract an AMT exemption amount, and recalculate their tax using the AMT tax rate structure. AMT liability is the excess, if any, of this amount over the amount of tax owed under the regular income tax rules.

AMT preference items include the deduction for state and local taxes (62 percent of all preferences in 2012 according to Treasury data), personal exemptions (21 percent), the deduction for miscellaneous business expenses (9.5 percent), and the standard deduction (0.7 percent). The AMT also has special rules for the treatment of net operating losses and depreciation.

Because the AMT disallows the state and local tax deduction and dependent exemptions, families with children who live in high-tax states are among the most likely to owe AMT. Allowing the state and local tax deduction and dependent exemptions for

AMT purposes would reduce the number of households affected by the AMT from 4.1 million to just 500,000 in 2015.

The AMT has two tax rates: the first $185,400 of income above the exemption is taxed at a 26-percent rate, and income above that amount is taxed at 28 percent. The AMT exemption begins to phase out at $119,200 for singles and heads of household, $158,900 for married couples filing jointly, and $79,450 for married couples filing separate returns. Because the exemption phases out at a 25-percent rate, it creates a top effective AMT tax rate of 35 percent (125 percent of 28 percent). All dollar values are for 2015 and are indexed annually for inflation (table 1).

TABLE 1

Alternative Minimum Tax Paremeters

Dollars, 2015

AMT parameter	Single	Married filing jointly	Head of household	Married filing separately
Exemption	53,600	83,400	53,600	41,700
28 percent bracket threshold	185,400	185,400	185,400	92,700
Exemption phaseout threshold	119,200	158,900	119,200	79,450

Source: Internal Revenue Code.

Note: All parameters are indexed annually for inflation.

DATA SOURCES

Internal Revenue Code. 26 USC.

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