

Did ATRA fix the AMT?

The American Taxpayer Relief Act of 2012 (ATRA) prevented an explosion in the number of tax filers ensnared by the AMT. Nonetheless, some 4.1 million will pay the AMT in 2015.

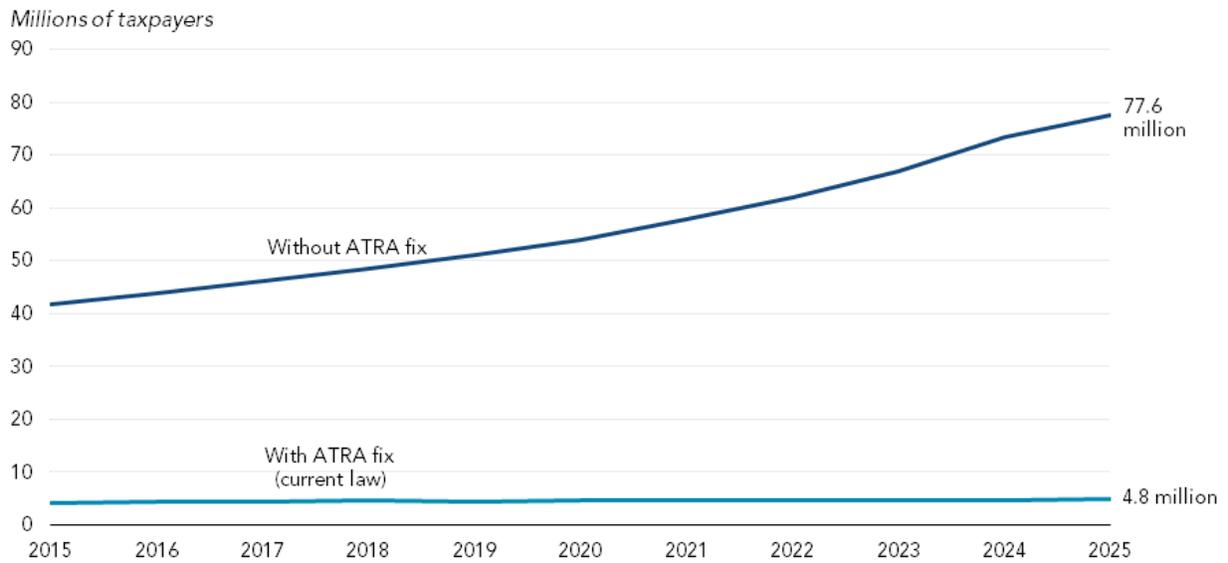
The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) substantially cut the regular individual income tax through 2010, but provided only limited and temporary relief from the individual alternative minimum tax (AMT) through 2004. The lack of a permanent solution required Congress to revisit the AMT every year or two and pass a short-term fix or “patch” to prevent the tax from ensnaring tens of millions of households. The patches typically limited the AMT’s reach by raising the exemption level and allowing certain personal credits to be used under the AMT.

The American Taxpayer Relief Act of 2012 (ATRA) made permanent most of the tax cuts enacted over the previous decade and finally created a permanent AMT fix. In addition to raising the AMT exemption, ATRA indexed the AMT parameters for inflation and permanently allowed certain tax credits—such as the child tax credit and credits for postsecondary education expenses—to be used under the AMT. The Joint Committee on Taxation estimated the 10-year cost of the AMT relief in ATRA at more than \$1.8 trillion.

Under ATRA, the number of taxpayers affected by the AMT is expected to increase from 4.1 million in 2015 to 4.8 million by 2025 (figure 1). If ATRA had not included an AMT fix, 41.8 million taxpayers would have faced the AMT in 2015. That number would have increased to 77.6 million by 2025.

FIGURE 1

Effect of ATRA Fix on Number of AMT Payers 2015–25



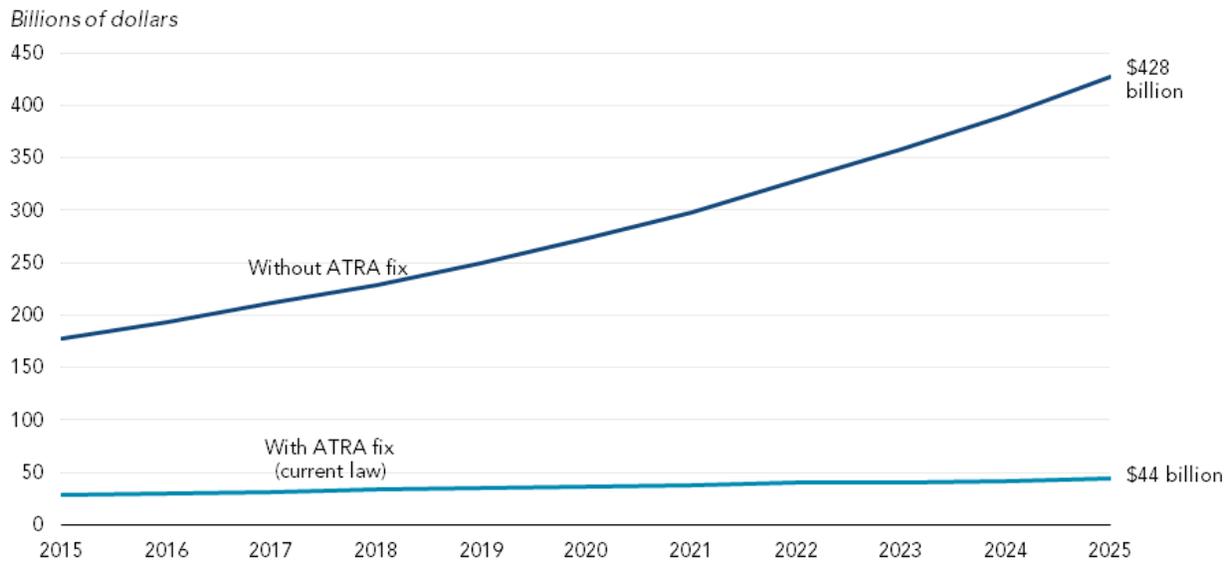
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-1).

Notes: AMT payers include those with direct AMT liability on Form 6251 as well as those with lost credits and/or reduced deductions.

Under ATRA, AMT revenue is projected to increase from \$28 billion in 2015 to \$44 billion in 2025 (figure 2). Without the ATRA fix, the tax would have generated \$178 billion in 2015, increasing to \$428 billion by 2025.

FIGURE 2

Effect of ATRA Fix on AMT Revenue 2015–25



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-1).

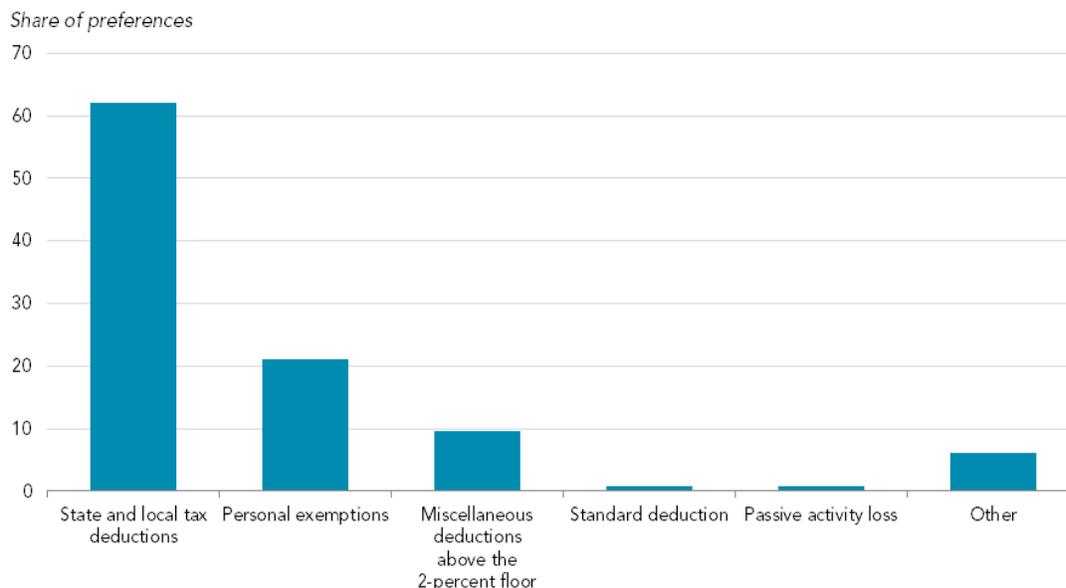
Notes: AMT payers include those with direct AMT liability on Form 6251 as well as those with lost credits and/or reduced deductions.

Although ATRA prevented an AMT explosion, it did not completely eliminate the problems associated with the tax. The original purpose of the minimum tax, the precursor to today’s AMT, was to prevent high-income households from sheltering significant amounts of income and to ensure that those households paid at least some income tax. The current version of the AMT strays from that original goal.

Most taxpayers find themselves on the AMT not because they engage in egregious tax sheltering but because they are married, have large families, or live in high-tax states. Data from the Treasury Department show that in 2012, the largest differences between taxable income under the regular income tax and under the AMT result from the AMT’s disallowance of the state and local tax deduction (62 percent of difference) and personal exemptions (21 percent) (figure 3). Allowing those items under the AMT would have reduced the number of taxpayers affected by the tax in 2015 from 4.1 million to 500,000.

FIGURE 3

AMT Preference Items as a Share of Total Positive Preferences 2012



Source: Office of Tax Analysis, Department of the Treasury (unpublished tabulations).

Notes: Regular tax net operating losses (NOLs) represent 3.0 percent of positive preferences but are partially offset by AMT NOLs, which are a negative preference.

A true AMT “fix” would likely involve either retargeting the tax to hit aggressive tax sheltering or broadening the base of the regular income tax to eliminate the need for an alternative tax in the first place.

DATA SOURCES

Joint Committee on Taxation. [JCX-1-13. “Estimated Revenue Effects of the Revenue Provisions Contained in an Amendment in the Nature of a Substitute to H.R. 8, the ‘American Taxpayer Relief Act of 2012,’ as Passed by the Senate on January 1, 2013.”](#)

Urban-Brookings Tax Policy Center. “Microsimulation Model, version 0515-1.”

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———. [Table T15-0019. “Aggregate AMT Projections and Recent History, 1970–2025.”](#)

———. *Tax Facts*. [“Reconciling AMTI and Taxable Income for AMT Taxpayers in 2012.”](#)

FURTHER READING

Williams, Robertson. 2013. ["Honey, I Shrunk the AMT \(But It's Not Gone\)."](#) TaxVox. August 26.

Williams, Robertson. 2013. ["How the New Tax Act Affects the Alternative Minimum Tax."](#) TaxVox. January 18.