

## AMT Coverage by State, 2007

By Carol Rosenberg

Many taxpayers must calculate their tax liability under two sets of rules: those applying to the regular income tax and those under the alternative minimum tax. If they owe more tax under the alternative rules, then the difference is paid as AMT. The AMT hits people in some states harder than others. State and local income and property taxes are allowed as itemized deductions against the regular income tax, but not against the AMT. As a result, taxpayers in states that rely more heavily on income taxes are more likely to be on the AMT than taxpayers in other states. A temporary provision (expiring at the end of 2009) also allowed taxpayers to elect to deduct sales taxes, rather than income taxes, in 2007. States also vary based on the income of their residents. Higher-income people are more likely to be on the AMT because households with incomes below the AMT exemption (\$66,250 for couples and \$44,350 for singles in 2007) are not subject to the tax, and the AMT exemption phases out at incomes exceeding \$150,000 (\$112,500 for single filers).

The map below shows the proportion of taxpayers paying AMT in each state in 2007. In two-thirds of the states, less than 3.5 percent of taxpayers were subject to the AMT, but in New Jersey 8.7 percent of taxpayers paid AMT, and 7.7 percent owed AMT in neighboring New York. More than 6.5 percent of taxpayers in California, Connecticut, and the District of Columbia were subject to the AMT. The proportion of taxpayers on the AMT increased since 2004 in all states because income grew faster than the exemption threshold.

Overall, 4.2 million taxpayers (4.2 percent) were subject to the AMT in 2007. However, the current higher AMT exemption is a temporary provision scheduled to decline sharply in 2010. Congress will likely extend the higher threshold, as it has since 2001, but if it doesn't nearly 30 million taxpayers will be affected by the tax in 2010. Even taxpayers in low-tax states will feel the pinch.

For more on the AMT, see Leiserson and Rohaly, 2008, "The Individual Alternative Minimum Tax: Historical Data and Projections," available at <http://taxpolicycenter.org/publications/url.cfm?ID=411703>.

