

Alternative Minimum Tax

Background

The Alternative Minimum Tax (AMT) was designed in 1969 to ensure that wealthy taxpayers did not use loopholes to escape paying their share of taxes. It was originally targeted at the 155 filers then earning \$200,000 per year without paying any federal taxes, but has since rapidly expanded to cover an ever-larger number of middle-class taxpayers.ⁱ

Unlike the regular income tax, it has a broader base, a top rate of 28 percent and a large basic exemption of \$45,000 for a married couple.ⁱⁱ The AMT also disallows certain tax breaks, such as state and local tax deductions, as well as the personal exemption. Taxpayers subject to the AMT must calculate their tax liability twice: once under the regular income tax rules and again under AMT rules. If the AMT liability is larger than the taxpayer's regular income tax liability, the AMT total is paid.ⁱⁱⁱ

The biggest problem with the AMT is that, unlike the regular income tax, it is not indexed for inflation. Congress has, from time to time, increased the income thresholds for the AMT through a series of "patches," the most recent of which was in 2010. Without it, the number of taxpayers subject to the AMT would have jumped from 4.5 million to 27 million or one in six American taxpayers.^{iv}

While the 2010 patch helps out millions of taxpayers who might otherwise pay the AMT, the uncertainty of when and how much relief will be provided is a constant area of frustration for taxpayers who have encountered or might face the alternative minimum tax. Thus, absent any law change, as many as half of all tax filers in 2015 could end up paying it.^v

ISSUE SNAPSHOT

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The AMT must be eliminated from the federal tax code.

At present, the states that are hardest hit by the current AMT are California, Massachusetts, New Jersey and New York, where about half of all taxpayers who are subject to the AMT reside. Because employers in these states typically offer large salaries to offset the high cost of living in these states, their residents are more likely to have to pay the AMT.^{vi}

Policy Consideration

Eliminating the AMT would have several benefits:

- It would simplify the already-complicated federal tax code.
- It would prevent an unintended tax hike for millions of American taxpayers.

Recommendation

The AMT is an outdated tax system without any purpose that, if unchecked, will catch millions of taxpaying families in less than five years. It must be eliminated from the federal tax code.^{vii}

GUIDE TO THE ISSUES

Further Reading

- Veronique de Rugy, “Slay This Tax Monster.” *The American*, April 2, 2011. Available at <http://tinyurl.com/3gse43q>. Access verified June 15, 2011.
- Kay Bell, “Beware the Costly, Complicated AMT.” *Bankrate.com* (website), March 22, 2011. Available at <http://tinyurl.com/yfkbdrg>. Access verified April 18, 2011.
- J.D. Foster, “AMT Patch Bill Disguises a Tax Hike, Again.” The Heritage Foundation, *WebMemo* No. 1968, June 25, 2008. Available at <http://tinyurl.com/6b7q4qe>. Access verified June 15, 2011.

ⁱ Kay Bell, “Beware the Costly, Complicated AMT.” *Bankrate.com* (website), March 22, 2011. Available at <http://tinyurl.com/yfkbdrg>. Access verified April 18, 2011.

ⁱⁱ J.D. Foster, “AMT Patch Bill Disguises a Tax Hike, Again.” The Heritage Foundation, *WebMemo* No. 1968, June 25, 2008. Available at <http://tinyurl.com/6b7q4qe>. Access verified June 15, 2011.

ⁱⁱⁱ Veronique de Rugy, “Slay This Tax Monster.” *The American*, April 2, 2011. Available at <http://tinyurl.com/3gse43q>. Access verified June 15, 2011.

^{iv} de Rugy, “Slay This Tax Monster.”

^v Kay Bell, “Beware the Costly, Complicated AMT.” *Bankrate.com* (website), March 22, 2011. Available at <http://tinyurl.com/yfkbdrg>. Access verified April 18, 2011.

^{vi} de Rugy, “Slay This Tax Monster.”

^{vii} “Solutions for America: Tax Reform.” The Heritage Foundation, August 17, 2010. Available at <http://www.heritage.org/research/reports/2010/08/tax-reform>. Access verified June 15, 2011.