Corporate Alternative Minimum Tax Data

The corporate alternative minimum tax (AMT) is an alternative tax base to the regular tax system. When investments and other expenses are large relative to a company's taxable income, as occurs during economic downturns, the company may owe alternative minimum tax. Corporate AMT payments represent a pre-payment of tax that the taxpayer will get back when and if it returns to a sufficient level of profitability.

1998 Tax Payments

In 1998 (the latest year for which corporate tax return data are available), corporate alternative minimum tax (AMT) payments were $3.3 billion. Total corporate income tax liability in 1998 net of credits was $181.5 billion.

Companies Affected by the AMT in 1998

AMT rules increased the tax liability of 30,226 companies in 1998. The AMT increases tax liability in two ways: first, companies pay the corporate AMT when their tax liability calculated under the AMT rules is higher than when calculated under the regular rules of the tax system. Second, AMT rules prevent companies from using most business tax credits, such as the research and experimentation credit, the work opportunity tax credit, and the welfare-to-work tax credit, to offset AMT or to reduce regular tax below tentative minimum tax liability. Of the 30,226 companies with increased tax liability in 1998, 18,352 companies paid AMT and an additional 11,874 companies had their use of tax credits limited by AMT rules. These 30,226 companies account for 26.9 percent of all corporate assets in 1998.

The 30,226 corporations paying increased taxes under the AMT are spread among all industry sectors, from agriculture to the service sector. Within manufacturing, 5,596 corporations paid higher taxes due to the AMT. These corporations accounted for just over half of all corporate manufacturing assets. The following table shows for each industry the number of companies paying increased taxes under the AMT and the percent of assets within that industry held by these companies.

AMT Affected Companies by Industry, 1998

Industry	*AMT Affected Companies*	*Percent of Industry Assets held by AMT Affected Companies*
Agriculture, Forestry, Fishing and Hunting	584	10
Mining	456	47
Utilities	391	32
Construction	4,533	14
Manufacturing	5,596	51
Wholesale and Retail Trade	4,301	25
Transportation and Warehousing	1,929	37
Information	579	28
Finance, Insurance, Real Estate & Management of Companies	6,223	18
Services and Other	5,635	22
Total	**30,226**	**27**

Source: Statistics of Income Corporate Tax Return File, 1998. AMT affected companies are defined as those making positive AMT payments or those firms with increased tax liability because AMT rules restrict the ability to use tax credits permitted under the regular tax.

Panel Data of Corporate Tax Returns, 1993-1998

A continuous sample of corporate tax returns was created to follow the tax status of companies over the 1993-1998 period. The sample consists of 9,021 companies with tax return information available for each year and having assets exceeding $50 million in 1993. These firms account for 60 percent of AMT payments in 1998 and 62 percent of total corporate income taxes in 1998.

Between 1993 and 1998, 49.2 percent of the firms in this sample paid higher taxes due to the AMT in at least one year, either through direct AMT payments or through limits in the use of tax credits due to the AMT rules. Firms affected by the AMT accounted for 70.7 percent of all corporate assets.

Recent Changes in Law

Two recent changes to the corporate AMT were made by the Taxpayer Relief Act of 1997.

For taxable years beginning after December 31, 1997, a corporation with average gross receipts of less than $7.5 million for the prior three taxable years is exempt from the AMT. (The $7.5 million threshold is reduced to $5 million for the corporation's first three-taxable year period.)

For property placed in service after December 31, 1998, the AMT recovery *period* for computing the depreciation adjustment is the same as for regular tax purposes. The AMT recovery *method*, however, is not conformed. Property eligible for the 200-percent declining balance method under the regular tax must continue to be recovered using the slower 150-percent declining balance method under the AMT. (Property recovered under the 150 percent declining balance method or the straight-line method for regular tax purposes is recovered using the same method under the AMT.) Property placed in service on or before December 31, 1998 is generally recovered over longer periods under the AMT than for regular tax purposes in addition to being subject to the slower recovery method.