The Alternative Minimum Tax for Individuals

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Summary

Over time, the individual income tax has been used as a vehicle to promote various social and economic goals. This has been accomplished by according preferential tax treatment to certain items of income and expense. The net result, however, has been that by taking advantage of the preferences and incentives in the tax code, some individuals can substantially reduce their income taxes.

Congress, in 1969, enacted the predecessor to the current individual alternative minimum tax (AMT) to make sure that everyone paid at least a minimum of taxes and still preserve the economic and social incentives in the tax code. The AMT is calculated in the following manner. First, an individual adds back various tax preference items to his taxable income under his regular income tax. This amount then becomes the AMT tax base. Next, the basic exemption is calculated and subtracted from the AMT tax base. A two-tiered tax rate structure of 26% and 28% is then assessed against the remaining AMT tax base to determine liability. The taxpayer then pays whichever is greater, the regular income tax or the AMT. Finally, the AMT tax credit is calculated as an item to be carried forward to offset regular income tax liabilities in future years.

Since its inception, the value and effectiveness of the minimum tax has often been the subject of congressional debate. Recently, the combined effects of inflation and the legislative reductions in the regular income tax, enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L. 107-16), the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA, P.L. 108-27), and the Working Families Tax Relief Act of 2004 (WFTRA, P.L. 108-311), have increased congressional concern about the expanding impact of the alternative minimum tax. Fixing the problem would be expensive. It was estimated in 2008 that repealing the AMT would cost $872.3 billion over the 2007 to 2017 budget window. If the reductions in the regular income tax (e.g, EGTRRA, JGTRRA, and WFTRA) are extended beyond 2010, the cost of repeal would rise to roughly $3.4 trillion.

Both EGTRRA and JGTRRA provided for temporary increases in the basic exemption for the AMT as a means of mitigating the interaction between the reductions in the regular income tax and the AMT. WFTRA extended those increases in the AMT exemption through 2005. The Tax Increase Prevention Act of 2007 (TIPA, P.L. 110-166), enacted on December 26, 2007, increased the exemption for joint filers to $66,250 and to $44,350 for unmarried filers and allowed all personal and business credits against the AMT. The Tax Extenders and Alternative Minimum Tax Relief Act, which was included with the Emergency Economic Stabilization Act of 2008 (P.L. 110-343) and enacted on October 3, 2008, extended the AMT patch for the 2008 tax year by raising the exemption to $69,950 for joint filers and $46,200 for unmarried filers.

In the 111th Congress, H.R. 1, The American Recovery and Reinvestment Act of 2009, was enacted on February 17, 2009. H.R. 1 includes a one-year patch for the 2009 tax year and increases the exemption amounts to $46,700 for individuals and $70,950 for joint filers. As with recent AMT patch legislation, personal credits would also be allowed against the AMT. The estimated cost of the patch for 2009 is $69.8 billion over 10 years.

This report will be updated as legislative action warrants.

Contents

Tables

Contacts

Over time, the individual income tax has been used as a vehicle to promote various social and economic goals. This has been accomplished by according preferential tax treatment to certain items of income and expense. The net result, however, has been an erosion of the individual income tax base. By taking advantage of the preferences and incentives in the tax code, some individuals can substantially reduce their income taxes.

To make sure that everyone paid at least a minimum of taxes and still preserve the economic and social incentives in the tax code, Congress, in 1969, enacted the predecessor to the current individual alternative minimum tax (AMT). Since its inception, the value and effectiveness of the minimum tax has often been the subject of congressional debate. Recently, the combined effects of inflation and legislative reductions in the regular income tax enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), and the Working Families Tax Relief Act of 2004 (WFTRA) have increased congressional concern about the expanding impact of the alternative minimum tax. For the 2009 tax year, there will be an estimated 28.3 million taxpayers affected by the AMT absent congressional action. Fixing the problem would be expensive. It was estimated that repealing the AMT would have cost $872.3 billion over the 2007 to 2017 budget window.[1] If the reductions in the regular income tax (EGTRRA, JGTRRA, and WFTRA) are extended beyond 2010, the cost would rise to roughly $3.4 trillion.[2]

Temporary increases in the basic exemption for the AMT and changes in the treatment of personal tax credits have been enacted as a means of mitigating the interaction between reductions in the regular income tax and the AMT. These changes, however, expired at the end of 2008. The Emergency Economic Stabilization Act of 2008 (P.L. 110-343), enacted on October 3, 2008, extended the AMT patch for the 2008 tax year by raising the exemption to $69,950 for joint filers and $46,200 for unmarried filers, and allowing nonrefundable personal credits against AMT liability.

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This report provides a brief overview of the alternative minimum tax for individuals, discusses the issues associated with the current system, and describes legislative proposals regarding the AMT. The report will be updated as legislative action warrants.

Evolution of the Current System

The first individual minimum tax was enacted in 1969 and was an add-on minimum tax. That is, it was a tax that was paid in addition to the regular income tax. The tax rate for the add-on

[1] U.S. Congress. Joint Committee on Taxation. *Present Law and Background Relating to the Individual Alternative Minimum Tax,* JCX-38-07, June 25, 2007. Estimates for the current budget cycle are not yet available. The magnitude, however, will be roughly similar.

[2] U.S. Congress. Congressional Budget Office. *The Budget and Economic Outlook: Fiscal Years 2008 to 2018,* January 2008, p. 99.

minimum tax was 10% and the tax base consisted of eight tax preference items, the most significant of which was the portion of capital gains income that was excluded from tax under the regular income tax.

Since its enactment in 1969, the individual minimum tax has been significantly modified numerous times, in 1971, in 1976, in 1977, in 1978, in 1982, in 1986, in 1990, in 1993, in 1997, in 1998, in 2001, in 2002, in 2003, in 2004, in 2006, in 2007, and in 2008. The Tax Reform Act of 1976 was the first major modification, adding new preference items to the add-on minimum tax base and increasing the tax rate to 15%.

Another major change occurred under the Revenue Act of 1978, which created the predecessor of the current alternative minimum tax (AMT). This was an entirely new tax which was assessed on a taxpayer's regular taxable income increased by certain itemized deductions and the excluded portion of capital gains income (capital gains income was dropped as a preference item under the add-on minimum tax). The tax rates on the alternative minimum tax ranged from 10% to 25%. The alternative minimum tax was payable to the extent that it exceeded the sum of the taxpayer's regular income tax liability and his add-on minimum tax liability.

Between 1978 and 1982, individuals were subject to both the add-on minimum tax and the alternative minimum tax. Citing the need to simplify the system and focus the tax on high-income taxpayers, Congress, in provisions contained in the Tax Equity and Fiscal Responsibility Act of 1982, repealed the add-on minimum tax, expanded the tax base of the alternative minimum tax, and changed the AMT tax rate to 20%.

The Tax Reform Act of 1986 substantially changed the alternative minimum tax. It increased the tax rate to 21%, changed the basic exemption amount, broadened the tax base, and revamped the alternative minimum tax credit. It also introduced a phase-out of the AMT exemption amount for taxpayers whose AMT taxable income exceeded certain limits. For taxpayers filing joint returns the AMT exemption was reduced by 25% of the amount by which the taxpayer's AMT taxable income exceeded $150,000 ($112,000 for single taxpayers and $75,000 for married taxpayers filing separately, trusts, and estates).

By far, however, the most significant change affecting the AMT was indirect and resulted from modifications in the tax treatment of capital gains income under the regular income tax. Under pre-1986 law, 60% of a long-term capital gain was exempt from regular income taxes. The excluded portion of the gain, however, was taxable as a tax preference under the AMT. Since the 1986 Act repealed the exclusion for long-term capital gains income and capital gains income was taxed in full under the regular income tax, it was no longer taxed as a tax preference item under the AMT. This change substantially reduced the number of taxpayers subject to the AMT.

The Revenue Reconciliation Act of 1990 increased the AMT tax rate from 21 to 24%. The Revenue Reconciliation Act of 1993 made two major changes in the AMT. First, it increased the AMT exemption amounts from $40,000 to $45,000 for taxpayers filing joint returns, from $30,000 to $33,750 for taxpayers filing single returns, and from $20,000 to $22,500 for married taxpayers filing separately, estates, and trusts. Second, it created a two-tiered tax rate structure for the AMT. A 26% tax rate is applicable to the first $175,000 of a taxpayer's alternative minimum taxable income in excess of the exemption amount and 28% on alternative minimum taxable income in excess of $175,000.

The Taxpayer Relief Act of 1997 established that the maximum tax rate applicable to capital gains income under the regular income tax would also apply to capital gains income under the AMT.

The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1998 allowed the nonrefundable personal tax credits to offset an individual's regular income tax in full for tax year 1998 only, even though the personal tax credits might be larger than the amount by which the taxpayer's regular income tax exceeded his tentative minimum tax. In addition, it repealed, for tax year 1998 only, the provision that reduced the additional child tax credit by the amount by which an individual's AMT exceeded his regular income tax liability.

Another legislative change in the AMT occurred in the Ticket to Work and Work Incentives Improvement Act of 1999 which extended, through December 31, 2001, the existing law tax provision that allows individuals to offset their regular income tax by the full amount of their nonrefundable personal tax credits regardless of the AMT.

The Economic Growth and Tax Relief Reconciliation Act of 2001 permanently allowed the child tax credit, the adoption tax credit, and the IRA contribution tax credit to be claimed to the extent of the full amount of a taxpayer's regular income tax and alternative minimum tax. The act also temporarily increased the AMT exemption amount by $4,000 for joint returns ($2,000 for unmarried individuals) effective for tax years between 2001 and 2004.

The Job Creation and Worker Assistance Act of 2002 extended the temporary provisions, first enacted in 1998, that allowed individuals to use all personal tax credits against both their regular and AMT tax liabilities. This change was effective through December 31, 2003.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) increased the basic AMT exemption amount to $58,000 for joint returns and to $40,250 for unmarried taxpayers. These increases were in effect for tax years 2003 and 2004. JGTRRA also established that the new maximum tax rate of 15% applicable to capital gains and dividend income under the regular income tax would also apply to the taxation of capital gains and dividend income under the AMT.

The Working Families Tax Relief Act of 2004 (WFTRA) extended, through 2005, the JGTRRA increase in the basic AMT exemption amounts. WFTRA also extended the provision allowing nonrefundable personal tax credits to the offset both regular and AMT tax liability in full for taxable years 2004 and 2005.

The American Jobs Creation Act of 2004 made several changes to the AMT. It coordinated farmer and fisherman income averaging with the AMT so that the use of income averaging did not push taxpayers into the AMT. It repealed the 90-percent limitation on the use of the AMT foreign tax credit. The act also allowed the credits for alcohol used as a fuel and electricity produced by renewable resources to be used in full against the AMT.

The Tax Increase Prevention and Reconciliation Act of 2005 increased the AMT exemption amount for 2006 to $62,550 for joint returns and $42,500 for unmarried taxpayers. This act also extended, through 2006, the provisions allowing nonrefundable personal tax credits to offset AMT tax liability in full.

The Tax Relief and Health Care Act of 2006, which was signed into law on December 20, 2006, made the credit for prior year minimum tax liability refundable. Under the act, taxpayers can claim an AMT refundable credit amount that is the greater of (1) the lesser of $5,000 or the unused minimum credit, or (2) 20% of the unused minimum credit. The unused credit is the credit attributable to the previous three tax years. The AMT refundable credit is reduced for taxpayers with adjusted gross incomes in excess of certain threshold amounts. (For joint returns in 2009, the threshold will be $250,200). This provision applies to tax years beginning before January 1, 2013.

The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 (P.L. 110-28) allowed the tax credits for the work opportunity credit and the credit for taxes paid with respect to employee cash tips to be used in full against both the corporate and individual alternative minimum taxes. The Tax Increase Prevention Act of 2007 (P.L. 110-166), enacted on December 26, 2007, set the AMT exemption levels at $66,250 for joint filers and $44,350 for single filers and continued to allow non-refundable personal credits to offset AMT liability for the 2007 tax year.

The Tax Extenders and Alternative Minimum Tax Relief Act, included with the Emergency Economic Stabilization Act of 2008 (EESA, P.L. 110-343) and enacted on October 3, 2008, extended the AMT patch for the 2008 tax year by raising the exemption to $69,950 for joint filers and $46,200 for unmarried filers, and allowing nonrefundable personal credits against AMT liability. These two provision were estimated to reduce federal revenues by $61.8 billion over the 2009 to 2018 budget window. EESA also increased the AMT refundable credit amount for individuals with prior year AMT liability and abated the incentive stock option AMT liability, penalty, and interest.

In the 111th Congress, as noted earlier, H.R. 1, The American Recovery and Reinvestment Act of 2009, includes a one-year patch for the 2009 tax year. H.R. 1 increases the exemption amounts to $46,700 for individuals and $70,950 for joint filers. As with recent AMT patch legislation, personal credits would also be allowed against the AMT. The estimated cost of the patch is $69.8 billion over 10 years.

Calculating AMT Liability

The alternative minimum tax for individuals is calculated in the following manner. First, an individual adds back various tax preference items to his taxable income under his regular income tax. This grossed up amount then becomes his tax base for the AMT. Next, the amount of the basic exemption is calculated and subtracted from the AMT tax base. A two-tiered tax rate structure of 26% and 28% is then assessed against the remaining AMT tax base to determine AMT tax liability. The taxpayer then pays whichever is greater, his regular income tax liability or his AMT tax liability. Finally, the AMT tax credit is calculated as an item to be carried forward to offset regular income tax liabilities in future years.

Tax preference items that are added to the AMT tax base include tax-exempt interest on certain private-activity bonds and excess depletion deductions. Also, for most types of property placed in service before 1987, the excess of accelerated depreciation over straight-line depreciation is considered a tax preference item and is added to the AMT tax base.

In addition to the tax preference items, certain adjustments are made to deductions that were allowed under the regular income tax calculation of taxable income. For instance, for certain assets, depreciation rates under the AMT differ from the depreciation rates under the regular income tax. In some cases the differences will be positive and increase the AMT tax base, while in other cases, the differences will be negative and decrease the AMT tax base.

Another major adjustment to the tax base for the AMT involves itemized deductions that are allowed under the regular income tax. For purposes of the AMT a taxpayer cannot claim deductions for miscellaneous expenses, for tax payments to state, local, or foreign governments, and for medical expenses except to the extent they exceed 10% of adjusted gross income (as opposed to the 7.5% floor under the regular income tax). Also deductions for investment interest expenses are limited to net investment income.

Other adjustments to determine the AMT tax base include, for long-term contracts, the percentage of completion method of accounting must be used rather than the completed contract or cash basis method of accounting; mining exploration and development costs must be capitalized and amortized rather than expensed; and the excess of the fair market value over the amount actually paid on incentive stock options must be included in the AMT tax base.[3]

Furthermore, the AMT tax base is not reduced by personal exemptions applicable under the regular income tax nor is it reduced by the standard deductions applicable under the regular income tax.

After the AMT tax base is calculated, the AMT exemption is subtracted prior to the calculation of AMT tax liability. The 2009 amounts are $70,950 and $46,700, respectively, and revert to their prior law levels of $45,000 for joint filers and $33,750 for single filers for 2010. See **Table 1** below for the changes in the AMT exemption since 1993.

Table 1. AMT Exemption Amounts 1993 through 2009

Tax Year	AMT Exemption Amount by Filing Status	
	Married	Unmarried
1993 to 2000	$45,000	$33,750
2001 to 2002	$49,000	$35,750
2003 to 2005	$58,000	$40,250
2006	$62,550	$42,500
2007	$66,250	$44,350
2008	$69,950	$46,200
2009	$70,950	$46,700
2010	$45,000	$33,750

The AMT exemption is reduced by 25% of the amount by which a taxpayer's AMT taxable income exceeds certain threshold amounts. In the case of joint returns, the basic exemption starts to phase out at AMT taxable income levels in excess of $150,000. For unmarried taxpayers, the exemption is phased out starting at AMT taxable income levels of $112,500. Thus, for each additional dollar of AMT taxable income over these thresholds, the AMT exemption is reduced by $0.25.

[3] For more information on the interaction of the AMT and incentive stock options, see CRS Report RS20874, *Taxes and Incentive Stock Options*, by Jane G. Gravelle.

Once the AMT tax base has been reduced by the applicable exemption amount, the AMT tax liability is determined by applying the AMT tax rate schedule. The AMT tax rate schedule is 26% of the first $175,000 of AMT taxable income in excess of any AMT exemption and 28% on any additional AMT taxable income above $175,000. As is the case under the regular income tax, under the AMT the maximum tax rate applied to capital gains and dividend income is 15%. (For joint returns filing separately, the AMT tax rate schedule is 26% of the first $87,500 AMT taxable income in excess of any AMT exemption amount and 28% on any additional AMT taxable income). The AMT tax is then reduced by several personal and business credits. **Table 2** lists the personal and business credits that are allowed as offsets to the AMT on a permanent basis. Note that the EGTRRA provisions expire after 2010. The recent extensions of the AMT patch allowed all personal and business credits against AMT liability in addition to the "permanent" credits listed in **Table 2**.

Table 2. Credits Allowed Against AMT Liability on a Permanent Basis

Legislation	Type of Credit	Credit
EGTRRA (P.L. 107-16)	Personal	Child Tax Credit
	Personal	Adoption Tax Credit
	Personal	Savers Credit
	Personal	Foreign Tax Credit
AJCA (P.L. 108-357)	Business	Alcohol Fuels Credit
	Business	Renewable Energy Production Credit
(P.L. 110-28)	Business	Work Opportunity Credit
	Business	Credit for Medicare and Social Security Employer Taxes Paid on Certain Cash Tips

It is important to note that even though a taxpayer may not be subject to the AMT, it can still affect his regular income tax liability. The reason is that, after 2008, some personal tax credits under the regular income tax are limited to the amount by which regular income tax liability exceeds AMT liability. These credits include the dependent care credit, the credit for the elderly and disabled, the HOPE Scholarship and Lifetime Learning credit, and the D.C. homebuyer's credit. Thus, a taxpayer who has a regular income tax liability of $5,000 and $1,000 of these affected personal tax credits, will effectively see these regular income tax credits reduced by $300 if his AMT liability is $4,300.[4] (The Tax Increase Prevention Act of 2007 allows taxpayers to offset their AMT liability by the full amount of their personal tax credits. This was extended through 2009 by ARRA 2009. This provision, however, expires after 2009.)

The final step in the process involves calculating the AMT tax credit, a multi-step operation. Essentially, the AMT credit is designed to prevent those preference items that represent tax deferrals (depreciation, for example) from being taxed one year under the AMT and again later under the regular income tax. The AMT tax credit can be carried forward to offset regular income tax liabilities in future years.

[4] The adoption tax credit, child tax credit, the IRA tax credit, the credit for alcohol used as a fuel, and the credit for electricity produced by renewable resources are allowed to the full extent of the individual's regular and AMT tax liability.

AMT Issues

Many analysts have voiced concern over the expected increase in the number of upper-middle income taxpayers who may be subject to AMT coverage in the near future. The Tax Policy Center estimates that 30.3 million taxpayers, or one-fifth of all taxpayers, will be on the AMT in 2009.[5] This increase in the number of taxpayers covered by the AMT would occur because of the combined effects of inflation and recent legislative changes to the regular income tax.

Under the regular income tax, the tax rate structure, the standard deductions, the personal exemptions, and certain other structural components are indexed so that they do not lose their real (inflation-adjusted) value over time. This prevents real income tax liabilities from increasing solely due to the effects of inflation.

The structural components of the AMT, however, are not indexed for inflation. This lack of indexation means that over time real AMT tax liabilities will increase because of inflation induced increases in items of nominal income and expense. The end result would be that the gap between tax liabilities under the regular income tax and the AMT will shrink and many taxpayers could end up subject to the unindexed AMT or experience reductions in their nonrefundable tax credits under the regular income tax.

The potential problems of an indexed regular tax and an unindexed AMT have long been recognized by tax analysts. In 1997, approximately 605,000 taxpayers or about 1% of all taxpayers were subject to the AMT. In 2006, 4.0 million or about 2.9% of all taxpayers were subject to the AMT.[6]

Preliminary estimates indicate that by 2010, when the effects of both inflation and the legislative changes contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 are taken into account, the number of taxpayers falling under either the AMT or AMT limits on their tax credits under the regular income tax would grow to 31 million. If the EGTRRA provisions are made permanent, then by 2017, 51 million taxpayers would be affected by the AMT.[7]

The individual income tax rate reductions and the marriage penalty tax relief provisions of the 2001 act, absent periodic AMT patches, would have increased the number of taxpayers subject to the AMT. Indeed, many taxpayers in the middle income ranges will find that the AMT will "take back" much of the tax reductions contained in the 2001 and 2003 acts when filing 2010 returns.

Table 3 shows what the "take back" effect of the AMT would have been in 2009 for a hypothetical family that files a joint return and has $75,000 of income if the ARRA patch were not approved. The "take back," as calculated here, is the amount of the tax cut from EGTRRA (and subsequent modifications) that would have been lost because the AMT was not also modified by EGTRRA. For example, assuming with the EGTRRA tax cuts in place and the AMT patch for 2009 was not enacted, a family of four would have had to have paid $5,800 in federal

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[5] Urban-Brookings Tax Policy Center, *Table T8-0252*, November 4, 2008, available online at http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=2018, visited November 25, 2008.

[6] U.S. Department of Treasury, Internal Revenue Service, *Statistics of Income: 2006 Individual Income Tax Returns,* Publication 1304, July 2008, p. 4.

[7] U.S. Congress. Joint Committee on Taxation. *Present Law and Background Relating to the Individual Alternative Minimum Tax,* JCX-38-07, June 25, 2007.

income taxes because of the AMT. This is less than the $6,440 that would have been due had EGTRRA never been enacted. With the EGTRRA tax cuts, however, it is $1,195 more than if this family were not subject to the AMT.[8]

In addition, any future reductions in the federal income tax burden without modifications to the AMT would likely increase the number of taxpayers subject to the AMT or subject to AMT limitations on their personal tax credits. The cost of the patch for the 2009 tax year is estimated to be $69.8 billion.[9] Thus, in years without the AMT patch, many taxpayers will have much of the proposed tax cut "taken back" by the AMT.

Table 3. Take Back Effect in 2009 for Joint Returns with AGI of $75,000

Number of Children	2009 Tax Liability			Take Back Effect
	No EGTRRA Tax Cuts	With EGTRRA Tax Cuts and:		
		No AMT Patch	w/ AMT Patch (ARRA 2009)	
0	$9,579	$7,800	$7,444	$356
1	$8,057	$6,800	$5,897	$903
2	$6,535	$5,800	$4,349	$1,451
3	$5,137	$4,800	$2,802	$1,998
4	$4,089	$3,800	$1,254	$2,546

Source: CRS calculations.

From an economic perspective, the alternative minimum tax poses a dilemma. Under an income tax system designed to be consistent with economic theory, there would be no need for an alternative minimum tax. An economically ideal income tax would correctly measure a taxpayer's change in net worth for the tax year. In these circumstances, where there is no erosion in the tax base, there would be no need for an alternative minimum tax. All taxpayers would already be paying what legislators have determined is their "fair share" of taxes as assessed by the regular income tax.

Given this, economic theory suggests that efforts might be better made to reform the regular income tax so as to bring it more in line with an economically ideal income tax. Then the alternative minimum tax could be eliminated.

It is unlikely, however, that the tax base of the regular individual income will be broadened to the point where there would be no place for an alternative minimum tax. If, in this environment, Congress wants to preserve all of the social and economic incentives in the tax code while maintaining the concept that everyone should pay at least a minimum level of income tax and wants to limit the number of taxpayers subject to the AMT, then it faces modification of the tax. Modifying the system involves two primary issues: inflation and AMT coverage.

[8] All other personal and business credits that could be claimed are not considered in this example.

[9] U.S. Congress, Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the Conference Agreement for H.R. 1, "The American Recovery and Reinvestment Tax Act of 2009,"* JCX-19-09, February 12, 2009.

It has been suggested that the most important change that could be made would be to index the structural components of the alternative minimum tax for inflation. This would allow a consistent separation of the two tax systems to be maintained over time. It would also substantially reduce the number of taxpayers projected to be affected by the AMT in the future.

The second issue concerns the coverage of the AMT. Originally, the AMT was intended to cover only high-income taxpayers. Tax incentives and preferences produced the greatest deviation in income tax payments at the high end of the income distribution. Thus, high-income taxpayers were able to significantly lower their income tax burden.

Changes to the tax code since the AMT was first introduced (primarily the 15% maximum tax rate on dividends and long term capital gains income under both the regular income tax and the AMT) have markedly increased the availability of special tax preferences to taxpayers in the middle and upper-middle range of the income distribution. This is likely to produce large deviations in the income tax liabilities of otherwise similarly situated taxpayers in these income ranges.

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