

The Alternative Minimum Tax

NSBA supports repeal of this complex tax structure

Claiming the tax is complex and inefficient, and unfairly threatens millions of middle-class families, fixing the Alternative Minimum Tax (AMT) has always been a top tax priority for members of Congress. However, the substantial revenue loss to the federal government continues to make full repeal of the AMT difficult to achieve.

The AMT was signed into law in 1969 after the American public became outraged that 155 wealthy Americans escaped federal income taxes by taking advantage of numerous deductions. Thus it was created as a way to prevent high-income taxpayers from avoiding income tax payments. However, the failure to index the AMT for inflation has resulted in millions of Americans paying this onerous double tax. In fact, the number of taxpayers owing the AMT grew from about 20,000 in 1970 to roughly four million in 2009. Without Congressional action, more than 28 million new taxpayers would have paid the AMT in 2010.

The AMT is similar to a flat tax with two brackets, 26 and 28 percent, with fewer deductions. Taxpayers do not get credit for dependents, medical expenses, and state and local taxes. Instead, taxpayers get a single deduction—called the AMT exemption—which for 2010 is set at \$72,450 for married couples and \$47,450 for singles. Taxpayers compute their taxes both ways and pay whichever amount is higher. This computation is harshest on taxpayers with annual incomes of \$100,000 to \$500,000. Because the overwhelming majority of small businesses are pass-through entities, their business income is reported as personal income, subjecting increasing numbers of small-business owners to this complex tax.

The AMT has an extraordinarily expensive compliance cost relative to the revenue that is generated from the tax. While Americans clamor for simpler tax filing system, the AMT acts in quite the opposite manner, forcing families and businesses to fill out two forms, which adds approximately six additional hours of tax preparation time.

As part of the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (H.R. 4853)*, Congress approved a “patch” that revised the exemption amounts used in making the AMT computation for 2010 and 2011. Without the revised exemptions, an estimated 28 million taxpayers would have been hit by the AMT—boosting their tax bills by an average of more than \$6,000 each, and, collectively, an extra \$136 billion in taxes.

For tax year 2010, the bill signed into law on Dec. 17, 2010, sets the income threshold that is exempt from the reach of the AMT to \$47,450 for individuals and to \$72,450 for couples filing jointly. In 2011, those exemption amounts will increase to \$48,450 and \$74,450 respectively.

In President Barack Obama's 2012 budget submission to Congress, he proposes a three year patch—through 2014—to the AMT that is paid for by an across-the board 28 percent reduction in itemized deductions for high-income taxpayers. This proposal—the same level that was in place at the end of the Reagan Administration—will raise \$321 billion over the next ten years.

NSBA urges full repeal of the AMT, or alternatively, recommends changes to lessen the impact on middle-income taxpayers. It is a complex, inefficient and loophole-riddled tax that needs to be reformed. It is time to stop this stealth tax and look for longer-term solutions that are actually financially feasible.