

The Alternative Minimum Tax

NSBA supports repeal of this complex tax structure

Many congressional leaders have vowed to make the Alternative Minimum Tax (AMT) a centerpiece of this year's budget debate. Claiming the tax is complex, inefficient and unfairly threatens million of middle-class families, fixing the AMT is a top tax priority for members of Congress. However, the substantial revenue loss to the federal government will make full repeal of the AMT difficult to achieve.

The AMT became 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. As a result, by 2010, one in three tax filers, or an estimated 36 million people, will be subject to the AMT.

In both the 2001 and 2003 tax growth packages, Congress worked to ensure that new tax cuts would not force more taxpayers in the AMT trap. Congress "patched" the AMT one year at a time, primarily by increasing the exemption amount. The current temporary "patch" or increase in AMT exemption levels was passed in mid-2006 and expired at the end of the last year. According to the Joint Committee on Taxation, this year, in order to hold the number of affected taxpayers at approximately four million, the patch would cost about \$50 billion. However, getting rid of the tax altogether would be even more expensive—more than \$1 trillion over the next decade.

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 is set at \$62,550 for married couples and \$42,500 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, where approximately 3.5 million of these households paid the AMT in 2005.

On the first day of the 110th Congress, Senate Finance Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) introduced legislation to repeal the individual AMT beginning in the 2007 tax year. The *Individual Alternative Minimum Tax Repeal Act of 2007* simply says that, beginning Jan. 1, 2007, individuals will owe zero dollars under the AMT. Further, the bill provides that individuals with AMT credits can continue to use those credits up to 90 percent of their regular tax liability.

The AMT has an extraordinarily—expensive compliance cost relative to the revenue that is generated from the tax. While consensus is moving toward a 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.

NSBA continues to advocate for repeal of the AMT, or alternatively, recommends changes to lessen the impact on middle-income taxpayers. It is time to stop this stealth tax and look for longer-term solutions that are actually financially feasible.