Repeal 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.

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 2012 is set at $45,000 for married couples and $33,750 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 a simpler tax filing system, the AMT acts in quite the opposite manner, forcing families and businesses to fill out two forms, which add 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. Unless Congress raises the amounts for 2012, more than 31 million taxpayers will be hit by the AMT—totaling roughly $132 billion in 2012, an average of $4,200 per affected taxpayer.

The now routine legislative patches to extend the AMT income exemption amounts are just one arena of conflict in the broader battle over tax reform that looms in Congress. While 2011 was a quiet year for AMT legislation, some action will be needed in 2012 to extend AMT relief beyond 2011. Given that the patches for 2010 and 2011 were not enacted until the very end of 2010, it would not be surprising if Congress took no action on the 2012 patch, or other tax-reform measures, until after the presidential election in November 2012.

The House approved an AMT exemption increase for both 2012 and 2013 as part of its individual tax rate extension bill, while the Senate-approved individual tax rate bill would provide an AMT exemption increase only for 2012. In a separate bill addressing business and individual tax extenders, the Finance Committee package approved an AMT exemption increase for 2012 and 2013.

In President Barack Obama’s 2013 budget submission to Congress, he proposed replacing the AMT with a simpler, new tax on the wealthy. This new approach would ensure that people with annual incomes of more than $1 million always pay at least 30 percent of their income in federal tax (i.e. the so-called “Buffet” Rule). However, in April, Democrats failed to garner the 60 votes needed to move to a full debate and vote on the Buffet Rule aimed at getting more tax revenues from the wealthy.

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.