



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

March 7, 2005

MEMORANDUM FOR      **JEFFREY KUPFER, EXECUTIVE DIRECTOR**  
                                 **PRESIDENT'S ADVISORY PANEL ON FEDERAL TAX REFORM**

FROM                      **ROBERT CARROLI** *RJC*  
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SUBJECT                 **BACKGROUND MATERIALS ON THE ALTERNATIVE MINIMUM**  
                                 **TAX (AMT)**

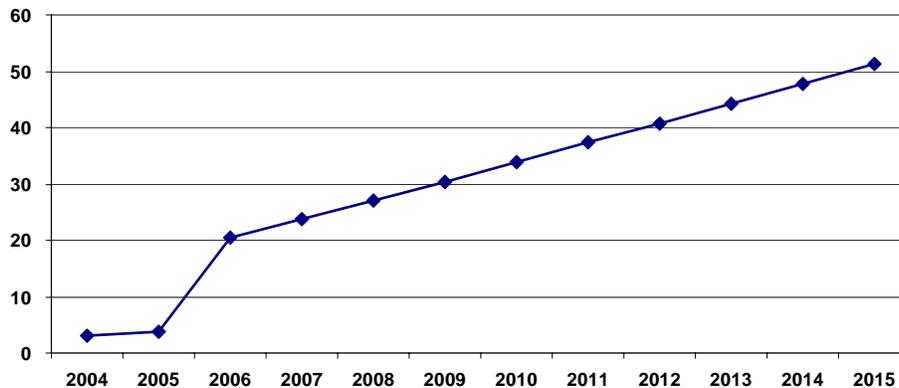
I understand that the President's Advisory Panel on Federal Tax Reform received testimony on the alternative minimum tax (AMT) as part of its second hearing held on March 3, 2005. We submit the attached materials to the Panel to provide background on the AMT and its effects. These materials should be considered public submissions to the panel.

## Fact Sheet: The Alternative Minimum Tax

- The alternative minimum tax (AMT) is a second income tax that runs parallel to the regular individual income tax.
  - Having to comply with two parallel tax systems is complex and burdensome.
- First enacted in 1969 largely as an add-on tax, the minimum tax was intended to assure that a very small group of high-income individuals who paid no income tax would pay at least some tax.
- As the chart below shows, the AMT will affect 3.8 million taxpayers this year, and will affect a rapidly growing number of taxpayers in future years.
  - An additional 16.7 million taxpayers will become subject to the AMT between 2005 and 2006. Many of these taxpayers are middle- to upper-middle-income taxpayers, most of whom are unaware that they will become AMT taxpayers.
  - The 20.5 million taxpayers subject to the AMT in 2006 will pay \$2,736 more in taxes just because of the AMT.
  - By 2015, 51.3 million taxpayers will be affected by the AMT, roughly 45 percent of all taxpayers with income tax.
  - By 2015, about three-quarters of upper-income and many middle-income taxpayers will be subject to the AMT.
- The revenue raised by the AMT also grows rapidly over the next ten years increasing from \$15 billion in 2004 to \$210 billion by 2015 (11 percent of total individual income tax revenues).
- The primary reason the AMT grows more rapidly over time than the regular income tax is that the regular tax is generally indexed for inflation, but the AMT is not.

### Number of AMT Taxpayers

AMT Taxpayers (millions)



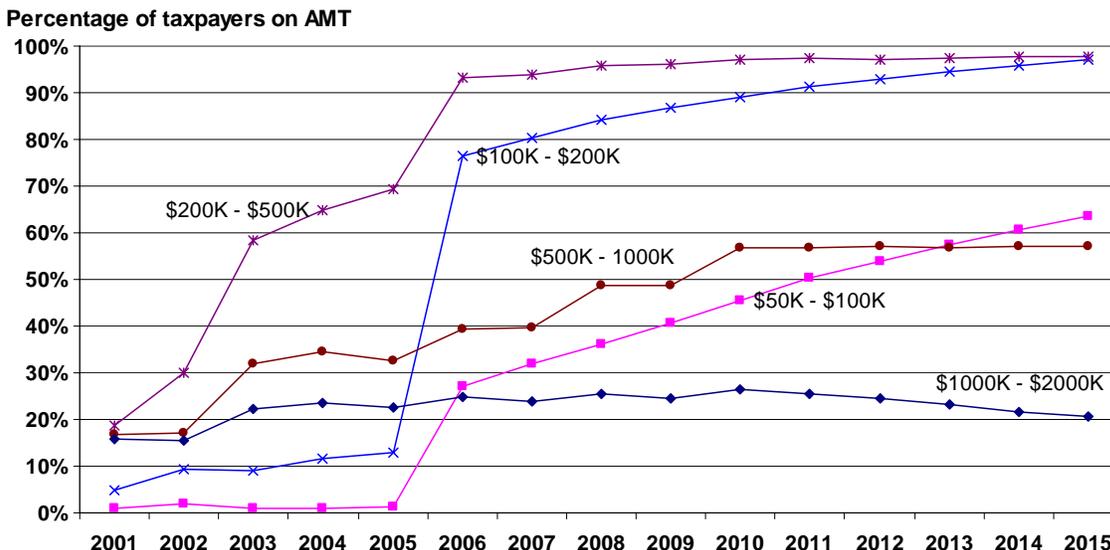
Note: Assumes EGTRRA and JGTRRA sunsets are repealed and the temporary AMT provisions are allowed to expire in 2005.

Source: U.S. Department of the Treasury, Office of Tax Analysis

## Which Taxpayers Are Affected The Most By The AMT?

- Middle-income taxpayers are increasingly affected by the AMT.
  - As the chart below shows, in 2005, 69 percent of taxpayers with incomes between \$200,000 and \$500,000 will be subject to the AMT.
  - Between 2005 and 2006 the percentage of taxpayers with incomes between \$100,000 and \$200,000 subject to the AMT will increase from 13 percent to 76 percent.
  - By 2011, a higher percentage of taxpayers with incomes between \$50,000 and \$100,000 will be subject to the AMT than for taxpayers with incomes exceeding \$500,000.
  - By 2015, over three-quarters of taxpayers with incomes between \$50,000 and \$1 million will be subject to the AMT.
  
- The increase in the number of middle-income AMT taxpayers occurs for several reasons.
  - The AMT exemptions and other AMT parameters are not indexed for inflation, whereas regular income tax parameters are indexed.
  - As income grows, state and local tax deductions under the regular income tax generally increase. However, there is no similar increase under the AMT because such deductions are not allowed under the AMT.
  - Real economic growth increases taxpayers' income which, for taxpayers in the income range where AMT rates are higher than regular income tax rates, increases the chances of being an AMT taxpayer.

### Percentage of Taxpayers on AMT, by Income Class (in 2005\$)



Note: Assumes EGTRRA and JGTRRA sunsets are repealed and the temporary AMT provisions are allowed to expire in 2005.

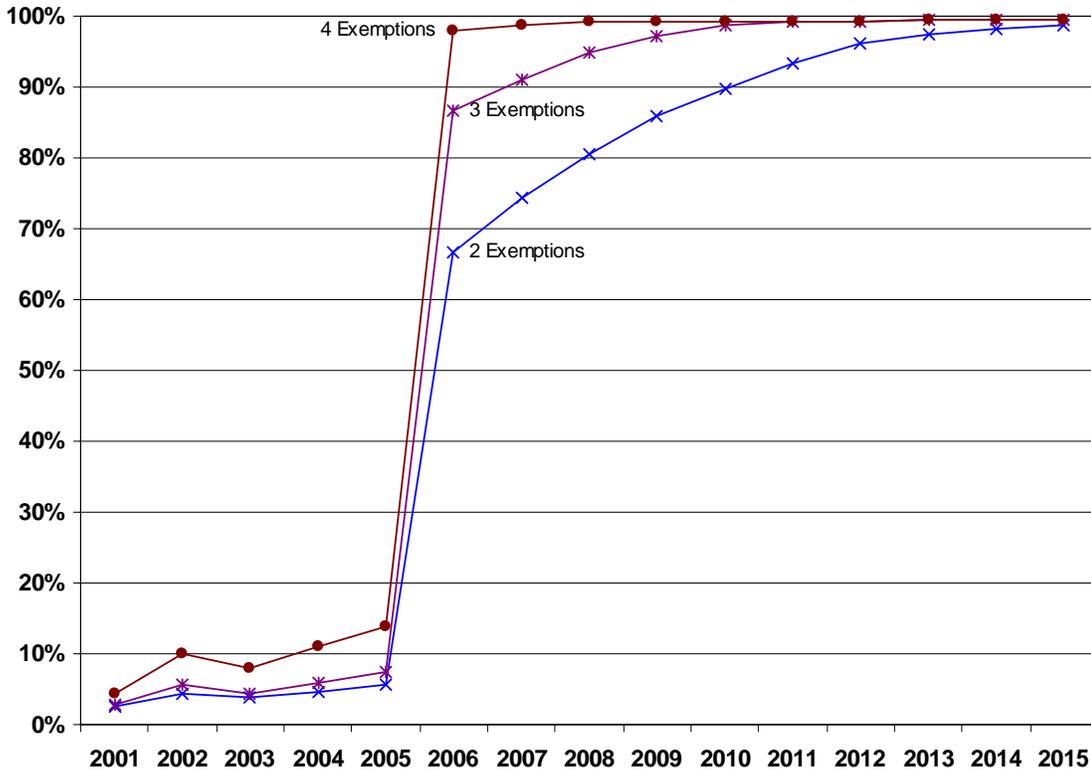
Source: U.S. Department of the Treasury, Office of Tax Analysis

## Taxpayers with Larger Families are More Likely to be Subject to the AMT

- Because the AMT does not allow deductions for personal exemptions, taxpayers with large families are more likely to be subject to the AMT.
- The chart below shows the change over the next 10 years in the percentage of taxpayers in the \$100,000 to \$200,000 income range subject to the AMT for married taxpayers filing jointly with 2, 3, and 4 exemptions.

### Percentage of Married Taxpayers Filing Jointly on AMT, by Number of Personal Exemptions, in \$100,000-\$200,000 Income Range (in 2005\$)

Percentage of taxpayers on AMT



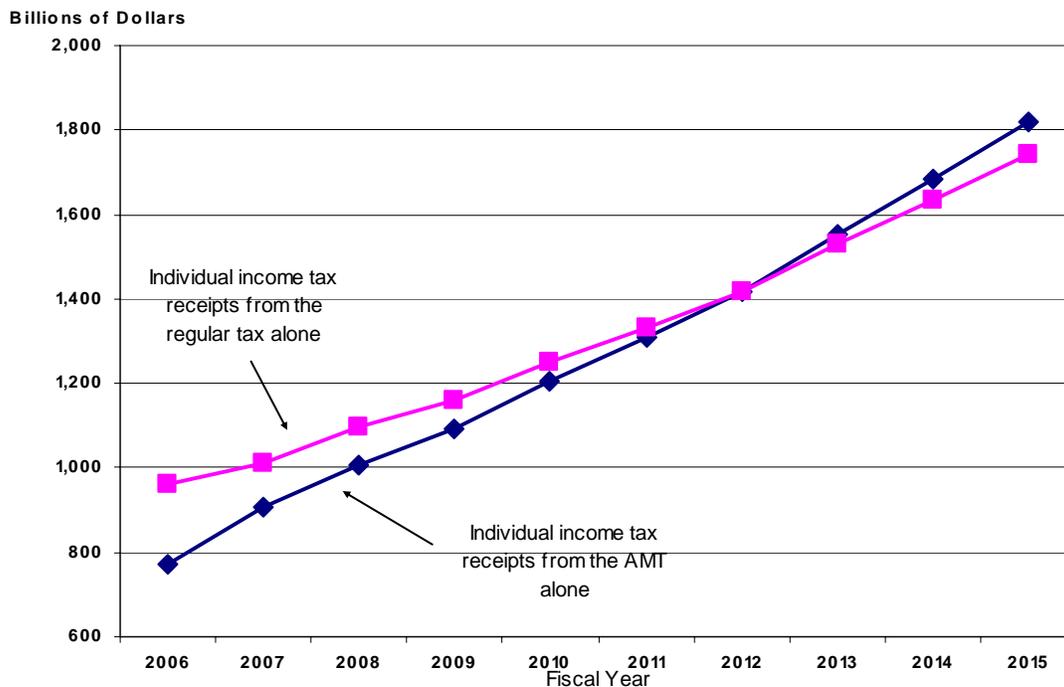
Note: Assumes EGTRRA and JGTRRA sunsets are repealed and the temporary AMT provisions are allowed to expire in 2005.

Source: U.S. Department of the Treasury, Office of Tax Analysis

## The AMT vs. Regular Income Tax

- The chart below shows the revenue that would be collected if either the regular tax or the AMT by themselves were retained. By 2013, the AMT alone would actually raise more revenue than the regular tax alone.<sup>1</sup>

### Revenue from the Regular Tax Versus the AMT



Note: Assumes EGTRRA and JGTRRA sunsets are repealed and the temporary AMT provisions expire in 2005.

Source: U.S. Department of the Treasury, Office of Tax Analysis.

<sup>1</sup> The analysis underlying the chart assumes that tax credits that can be used against the AMT, such as the child credit, would remain in place. If it were assumed that these tax credits were not retained under the AMT, the AMT would raise more revenue than the regular tax several years earlier than 2013.