

from the Tax Policy Center

AMT Coverage by State, 2004

By Len Burman and Carol Rosenberg

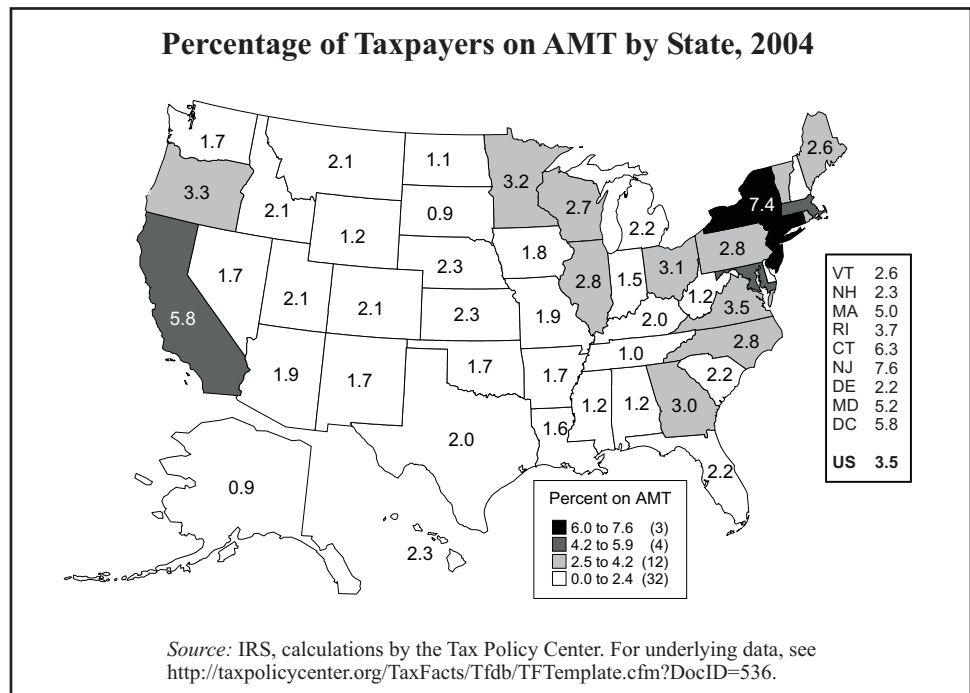
Many taxpayers must calculate their federal income tax liability under two sets of rules: those applying to the regular income tax and those of the alternative minimum tax. If a taxpayer owes more tax under the alternative rules, then the difference is paid as AMT. The AMT hits people in some states harder than it does in others. State and local income and property taxes are allowed as itemized deductions against the regular income tax, but not against the AMT. As a result, taxpayers in states that rely more heavily on income taxes are more likely to be on the AMT than taxpayers in other states. A temporary provision (up for renewal) also allowed taxpayers to elect to deduct sales taxes, rather than income taxes, in 2004. States also vary based on the income of their residents. Higher-income people are more likely to be on the AMT, because households with incomes below the AMT exemption (\$58,000 for couples and \$40,250 for singles in 2004) are not subject to the tax and the AMT exemption phases out at incomes exceeding \$150,000.

The map at right shows the proportion of taxpayers on the AMT in each state in 2004. In two-thirds of the states, less than 2.5 percent of taxpayers were subject to the AMT, but in New Jersey, 7.6 percent of taxpayers paid AMT, and almost the same percentage (7.4 percent) owed AMT in New York. More than 5.5 percent of taxpayers in

Connecticut, California, and the District of Columbia were subject to the AMT. In all states, the percentage of taxpayers subject to the AMT increased since 2003 because AMT parameters, unlike those of the regular income tax, are not adjusted for inflation.

Overall, 3.1 million taxpayers (3.5 percent) were subject to the AMT in 2004. However, the current elevated AMT exemption and is a temporary provision is scheduled to decline sharply in 2007. Without a change in the law, more than 23 million taxpayers will be affected by the tax in 2007. Even taxpayers in low-tax states will feel the pinch.

For more on the AMT, see Leiserson and Rohaly, 2006, "The Individual Alternative Minimum Tax: Historical Data and Projections," available at <http://www.taxpolicycenter.org/publications/template.cfm?PubID=901012>.



Tax Policy Center
Urban Institute and Brookings Institution

The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, provides independent, timely, and accessible analysis of current and emerging tax policy issues for the public, journalists, policymakers, and academic researchers. For more tax facts, see <http://www.taxpolicycenter.org/taxfacts>.