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AMT Preference Items, 2002

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To calculate the individual alternative minimum tax (AMT), taxpayers add a number of preference items and adjustments to their regular taxable income. The larger the dollar value of those preferences and adjustments, the more likely a taxpayer is to be subject to the AMT.

The two largest preference items are state and local taxes and personal exemptions. That is why taxpayers with many children in high-tax states are especially

prone to the AMT. State and local taxes amounted to 51 percent of all AMT preference items, adding \$42 billion to taxable income of those affected (90 percent of all AMT taxpayers). Personal exemptions comprised almost 22 percent of preferences, and miscellaneous itemized deductions, which include some employee expenses and legal fees incurred in some tort cases, amounted to about 20 percent.

Note that some adjustments are negative, such as refunds of state and local taxes. (The AMT deduction simply negates the inclusion of refunds in regular taxable income.)

Reconciling AMTI and Taxable Income for AMT Taxpayers in 2002

	Number of Taxpayers With AMT Preference (thousands)	Amount (\$ millions)	Percentage of All Preferences
Taxable income from Form 1040 (including negative amounts)		317,144	
+ AMT adjustments and preferences			
1 State and local tax deductions	1,986	42,103	51.1
2 Personal exemptions	1,875	17,801	21.6
3 Miscellaneous deductions above the 2 percent floor	1,039	16,741	20.3
4 Regular tax NOLs	15	9,811	11.9
5 Incentive stock options	19	1,987	2.4
6 Passive activity loss	343	1,197	1.5
7 Standard deduction	178	1,026	1.2
8 Post-1986 depreciation	348	965	1.2
9 Beneficiaries of estates	51	478	0.6
10 Private activity bond interest	92	437	0.5
11 Medical deductions	162	414	0.5
12 Long-term contracts	3	397	0.5
13 Other and related	21	351	0.4
14 Capital gains exclusion (section 1202)	3	224	0.3
15 Depletion	7	193	0.2
16 Loss limitations	16	179	0.2
17 Specific home-mortgage interest	31	163	0.2
18 Intangible drilling costs	2	68	0.1
19 Circulation expenses	0	5	0.0
20 R&E expenditures	0	5	0.0
21 Mining costs	0	2	0.0
22 Large partnerships	0	0	0.0
23 Installment sales	0	-3	0.0
24 Investment interest	29	-67	-0.1
25 Disposition of property	184	-1,257	-1.5
26 State and local tax refunds	1,010	-2,409	-2.9
27 AMT NOLs	14	-3,383	-4.1
28 Limit on itemized deductions under regular tax	1,108	-5,313	-6.5
29 Undetermined		211	0.3
Total preferences and adjustments	2,186	82,326	100.0
= AMTI		400,496	

Source: Office of Tax Analysis, Department of the Treasury (unpublished tabulation). In Burman and Weiner, "Suppose They Took the AM Out of the AMT," 2005, <http://www.taxpolicycenter.org>.

Note: AMT taxpayers are those affected by the AMT, including those who lose tax credits.

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