

Suppose they took the AM out of the AMT?

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I. Introduction

The individual alternative minimum tax (AMT) was originally intended to assure that high-income people paid at least some tax, but the AMT was poorly designed and affects more and more middle-income people every year.¹ Unless there is a change in policy, about 30 million taxpayers will fall prey to the complicated tax by the end of the decade. Unfortunately, the AMT raises a lot of tax revenue: reforming or eliminating it could cost \$500 billion or more over the next decade.

These problems have led some to suggest that the best option would be to make the AMT the regular tax system, rather than an alternative. This option would have several advantages according to its proponents. The AMT is nearly a flat-rate tax—there are only two statutory rates, of 26 and 28 percent. It eliminates a variety of special tax breaks in the regular tax system; that is, it applies to a broader base. And, over the long run, it is a more effective revenue generator than the regular income tax. Indeed, by 2009, it would cost less to eliminate the regular tax than to eliminate the AMT.

There are some problems with this analysis. First, the AMT is not really a flat tax: The AMT has high phantom tax rates—equal to 32.5 and 35 percent—caused by the phaseout of the exempt threshold. Second, some of the base broadeners in the AMT have questionable validity as policy. For example, deductions for certain legal expenses are not allowed under the AMT, with the consequence that some people who win civil damage awards with contingent legal fees can end up worse off after tax than they would have been if they had lost the lawsuit. Also, parents may not claim deductions for their children against the AMT. And the AMT can impose very large marriage penalties on certain households. Finally, the AMT's power as a revenue generator stems entirely from

the fact that its parameters are not indexed for inflation. In consequence, people whose incomes only just keep pace with inflation will face higher and higher average tax rates over time (a phenomenon sometimes referred to as bracket creep).

Nonetheless, there is certainly merit to the notion that taxpayers should not be subject to two tax systems. This paper examines the implications of basing a reformed tax system on the AMT rules. Section II describes how the AMT works and compares the AMT's rules with those that apply under the regular income tax. Section III discusses a variety of policy simulations aimed at illustrating how repealing the regular income tax or splicing the AMT's rules onto the regular income tax structure would affect households and revenues. Several of the options are designed to be revenue-neutral, meaning that they are admissible candidates for reform assuming that revenue neutrality would be a goal of reform. Section IV discusses policy implications.

II. The AMT Compared with the Regular Income Tax

How the AMT works²

The individual AMT operates parallel to the regular income tax, with a different income definition, rate structure, and allowable deductions, exemptions, and credits.³ In short, after calculating their regular tax liability, taxpayers must calculate their “tentative AMT” under the alternative rules and rates and pay whichever amount is larger. To calculate tentative AMT, taxpayers determine the AMT tax base and apply the AMT tax rate and exemption phaseout schedules, and then subtract applicable credits. Technically, AMT liability is the excess, if any, of tentative AMT above the amount of taxes that would be due under the regular income tax alone.

Differences between the AMT and Regular Income Tax

The AMT creates significant complexities for affected taxpayers. But what would the AMT look like as a stand-alone tax? Table 1 compares the major features of the AMT with the regular tax rules. To start with, the AMT has similar top rates to the regular income tax. The top four rates under the regular income tax are 25, 28, 33, and 35 percent. Under the AMT, the four effective rates are 26, 28, 32.5, and 35 percent. A notable difference, however, is that the top AMT rates do not apply to the highest-income taxpayers, because they are created by the phaseout of the AMT exemption. Beyond that phaseout range (Alternative Minimum Taxable Income (AMTI) of \$150,000 to \$382,000 for married filing joint taxpayers), the marginal tax rate is 28 percent. Perhaps even more important, the rate brackets and the AMT exemption (the amount of income for which a tax rate of zero applies) are not indexed for inflation, meaning that the relatively high AMT tax rates apply at lower and lower real incomes over time.

Figure 1 compares the rate schedules under the AMT and the regular tax for a married couple filing a joint return with two children and all income from wages (that is, the simplest case for comparison). The family is eligible for a standard deduction of \$9,700 and personal exemptions of \$3,100 per person under the regular tax (for a total exemption of \$22,100 under the regular tax), but not under the AMT. Instead, the family may claim a flat \$58,000 exemption that applies regardless of itemization status (unlike the regular tax standard deduction). Another difference is that all of these regular income tax parameters are indexed for inflation, whereas none of the AMT parameters is indexed.

The AMT thus applies at substantially higher income for our sample couple in 2004—\$58,000 compared with \$22,100 under the regular income tax.⁴ However, the AMT immediately applies higher tax rates—28 percent compared with only 15 percent under the regular income tax. Tax rates are surprisingly similar for taxpayers with incomes between about \$80,000 and \$380,000. As noted, at very high incomes, the regular income tax assesses higher rates.

However, the AMT will be applying at lower and lower real income levels over time under current law. First, the AMT exemption is set to return to its pre-2001 level starting in 2006. Second, the AMT exemption and other parameters are not indexed for inflation, whereas all of the regular income tax parameters relevant to figure 1 are indexed. In consequence, the couple illustrated in figure 1 will become subject to the 26 percent AMT tax rate at an income of less than \$38,000 in 2004 dollars by 2010, assuming an inflation rate of 3 percent per year. That is, the AMT schedule will slide steadily to the left over time. It will also get more compressed because the thresholds for the 28 percent tax bracket and the exemption phaseout are not indexed. This explains why more and more middle-income households will be subject to the AMT over time, and also why the vast majority of AMT taxpayers will face higher marginal tax rates than they would under the regular income tax by 2010.⁵

Another difference between the AMT and the regular income tax concerns how they treat heads of household and married couples compared with singles. The regular income tax generally applies lower tax rates to a head of household than to a single with the same income; married filing joint returns qualify for the lowest tax rates. Married

filing joint returns may also claim a standard deduction twice as large as applies to a single filer; the standard deduction for head of household lies between those two levels.

The AMT, in contrast, makes no distinction between heads of households and singles. Effectively, the benefits of head of household status are treated as an AMT preference item. The AMT exemption is higher for married filing joint returns than singles, but it is not twice as large. Moreover, the tax rates and exemption phaseout apply at exactly the same level of AMTI regardless of filing status. Thus, under the AMT, two single taxpayers who marry may face much higher tax rates simply because they marry. That is, they can face marriage penalties, which generally are larger than they would be under the regular income tax.⁶

The other differences between the AMT and regular income tax shown in table 1 have to do with preference items, which are added back into AMTI, as discussed above. Effectively, these items are allowed against the regular income tax, but disallowed or subject to further restrictions under the AMT. For example, state and local taxes and miscellaneous itemized deductions are disallowed against the AMT. Unreimbursed medical expenses are subject to a higher floor under the AMT than the regular income tax (10 percent versus 7.5 percent of AGI) and mortgage interest is only deductible to the extent that the mortgage is used to build, purchase, or improve a home. The relative importance of the various preference items is shown in table 2.

In summary, the alternative minimum tax would have certain drawbacks as a standalone tax. First, it is not indexed for inflation, which creates bracket creep. Second, most taxpayers with AMTI above the exemption threshold face higher marginal tax rates under the AMT than they would under the regular income tax, and those higher tax rates

are applying at lower and lower real incomes over time. Third, the AMT can create significant marriage penalties. Fourth, although the AMT is more progressive than the regular income tax, it is becoming less so over time.⁷ Moreover, since the tax rate that applies to the highest-income households is significantly lower under the AMT than under the regular income tax, the AMT is significantly less progressive at the very top of the income distribution.

III. Policy Simulations

We now examine some policy alternatives that would eliminate either the AMT or the regular income tax. For comparison purposes, first consider the effect of simply repealing the AMT. In 2010, the peak year for AMT participation over the next 10 years (assuming that the 2001–2003 tax cuts are allowed to expire as scheduled after 2010), the AMT would affect almost 30 million tax units and raise about \$100 billion in that year.⁸ Repealing the AMT would cut taxes on 18 percent of tax units, by an average of about \$3,400 (see table 3). Overall, the tax cut would average \$628 or a little over 1 percent of gross income. The biggest beneficiaries in dollar terms would be those with incomes over \$1 million, but the largest gains as a percentage of income would apply to those with incomes between \$200,000 and \$500,000. Over 97 percent of tax units in that income category would experience tax cuts, averaging 3.3 percent of income. Those with incomes between \$100,000 and \$200,000 would also gain a great deal. More than 82 percent would get a tax cut, average \$2,622. Overall, the tax cut would average about 1.6 percent of income in that income group. In addition, families with children would be the largest winners from this policy.⁹ Without an AMT in place, more than twice as many households would receive a marriage bonus (that is, pay lower taxes by virtue of being

married) than a marriage penalty. Compared with current law, more than 7 percent of couples would switch from suffering a marriage penalty to receiving a marriage bonus.

If the regular income tax was eliminated but tax credits retained, static revenues would decline by \$165 billion in 2010 (table 4). No tax units would experience tax increases and more than half of tax units would get a tax cut, averaging \$1,903. People with incomes below \$30,000 would largely be exempt from tax. The tax cut would average 5.7 percent of income for those with incomes between \$30,000 and \$40,000 and over 4 percent for those with incomes between \$20,000 and \$50,000. Taxpayers with incomes over \$1 million would gain most, receiving an average tax cut of \$77,425 or 2.6 percent of income. Interestingly, restoring the tax credits would increase both marriage penalties and bonuses, by close to 7 percentage points. Again, more households would suffer penalties than receive bonuses.

Indexing the AMT exemption and rate brackets would eliminate one of its primary flaws, but it would be very expensive. If, in addition to eliminating the regular tax, the parameters of the AMT were indexed for inflation beginning in 2006, revenues would be lower by over \$410 billion in 2010 alone (see table 5). This simulation illustrates that the AMT's power as a revenue generator largely stems from inflation-induced bracket creep. In this simulation, tax units with incomes under \$40,000 in 2010 are now totally exempt. The option would convey a tax cut worth about 7 percent of income for households with incomes between \$30,000 and \$75,000. Interestingly, a tiny fraction of households actually face a tax increase under this proposal. They are married filing separate returns, which can end up paying more tax because of the odd formula used for phasing out the AMT exemption.

Table 6 takes on another major defect of the AMT: Its large marriage penalties. In addition to indexing the AMT exemption level in this simulation, the exemption for couples is twice the level for singles, there is a single flat 28 percent tax rate, and no exemption phaseout. This option would reduce income tax liabilities by \$578 billion in 2010, reducing taxes by \$3,600 on average. People with incomes between \$75,000 and \$100,000 would receive the largest tax cut as a share of income (8.2 percent), but income classes between \$30,000 and \$200,000 would all get tax cuts worth over 6 percent of income. Marriage bonuses would outnumber penalties by almost three to one.

What would it take to make the option in table 6 revenue-neutral? One answer is a very high flat tax rate—49 percent. This option would shift the tax burden dramatically away from low- and middle-income tax units onto those with high incomes. Almost all tax units with incomes under \$75,000, and most with incomes below \$200,000, would pay lower taxes under the revenue-neutral option while almost all tax units with higher incomes would pay more in tax. The average tax increase would be \$363,000 for those with incomes over \$1 million. This option would, like the previous one, eliminate most marriage penalties and increase bonuses. Not surprisingly, it would also substantially increase average marginal tax rates, which would take a toll on economic efficiency.

The 49 percent revenue neutral rate could be reduced to 37 percent if instead of making the exemption for couples twice that of singles under current law, the single exemption were set to be half that for couples. In this scenario, more tax units face higher taxes, but the average tax increase for those who pay higher taxes is less than one-third as much. Similarly, fewer households experience tax cuts.

IV. Discussion

Some have suggested that making the AMT the only tax could be an easy way to reform our tax system. Our analysis suggests that this is not so. Simply eliminating the regular income tax would sacrifice substantial revenues, especially if the income tax credits are retained, and could produce significant marriage penalties and higher marginal tax rates (exacerbated by bracket creep) that could discourage working and saving and encourage inefficient tax avoidance behavior. It would also substantially reduce tax burdens for those most able to pay tax.

Some of those problems could be mitigated by indexing the AMT parameters for inflation and moving toward a flat rate tax, but the required tax rate to achieve revenue neutrality would be significant. A lower tax rate would be possible if long-term capital gains were taxed at the same rate as other income, but that proposal would raise a host of other political and policy issues.¹⁰ The bottom line is that there is no simple solution.

Would removing the “AM” from the AMT make the tax system much simpler? The main benefit comes from reducing two tax calculations to one, but one could achieve that gain just as well from eliminating the AMT. There is some simplification from eliminating the preference items, but most of the items do not apply to most taxpayers (and the ones that do apply widely have constituencies that would make it hard to eliminate them). Even if the regular tax rate schedule and significant AMT preferences were eliminated, much of the complexity of the tax code would remain. The tax code would still retain, for example, the rules for reporting business income and deductions along with the particular eligibility rules for each of the tax credits.

Some argue that the AMT is more efficient because it applies low, relatively flat rates to a broad tax base. In fact, the high exemption means that the AMT base is often smaller than the regular income tax base. And the phaseout of the AMT exemption creates effective tax rates as high as the highest statutory rate under the regular income tax.

Elimination of some preference items could make the AMT more neutral among different activities (and allows rates to be lower than they would be given the high exemption), but many preference items are missing from the list—most notably, capital gains. Moreover, some of the preference items may be unwarranted. For example, depreciation is slower under the AMT than under the regular income tax, but the U.S. Department of the Treasury¹¹ concluded that depreciation for most assets was probably about right on average. Thus, the AMT depreciation schedule may move AMTI farther away from economic income.

Is the AMT tax base fairer? It is true that the AMT is more progressive than the regular tax, but it is becoming less so over time. And eliminating the regular tax would provide the largest tax cuts to tax units earning over \$1 million.

The AMT does improve horizontal equity on several dimensions—for example, between families with children and those without, and between residents of high-tax and low-tax states. However, both of those equity gains might be viewed as losses if the tax preferences for children or state and local taxes are deemed to have merit.

In sum, the AMT could be the basis for a better tax system, but not without significant structural changes. Absent those changes, it would make more sense to reform

the income tax minus the AMT than to eliminate the regular income tax and repair the AMT.

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Endnotes

¹ For a discussion of the problems and trends with the AMT, see Burman, Gale, and Rohaly (2003), Burman, Gale, Rohaly, and Harris (2002), and Harvey and Tempalski (1997).

² See General Accounting Office (2000), Joint Committee on Taxation (2001), and Rebelein and Tempalski (2000) for excellent summaries of AMT rules.

³ A separate alternative minimum tax, which is similar in design to the individual AMT, applies to corporations. See Lyon (1997).

⁴ In fact, this family would not have positive income tax liability until their income was significantly higher if they qualified for the child tax credit. Since that credit is allowed against both the AMT and the regular tax, it would not affect the qualitative comparison between the two tax bases.

⁵ Burman et al. (2004).

⁶ Although the elimination of head of household status tends to reduce the size of marriage penalties (since single heads of household do not qualify for a special tax benefit under the AMT), the fact that rate schedules and exemption phaseouts are not adjusted for filing status and that the exemption is not twice as large for a married couple as for a single filer means that substantial marriage penalties can result.

⁷ Burman et al. (2004).

⁸ The estimates calculated here are changes in liability assuming no changes in behavior. The changes in revenue are estimated for 2010, but the cost of reform for a given proposal will tend to vary over time because under current law, the AMT has a differential impact over time.

⁹ Burman et al. (2004).

¹⁰ Burman (1999).

¹¹ U.S. Department of the Treasury (2000).

Table 1. Comparison of Regular Tax and Alternative Minimum Tax Provisions

Provisions	Treatment under regular tax	Treatment under AMT
Marginal tax rates	10%, 15%, 25%, 28%, 33% and 35%. Brackets are indexed for inflation.	26% and 28% (32.5% and 35% for taxpayers in the phaseout range of exemptions). Not indexed for inflation.
Standard deduction/exemption	Deduction of \$9,700 for married taxpayers filing jointly, \$4,850 for single taxpayers, and \$7,150 for heads of households allowed in 2004 for those who do not itemize deductions. Indexed for inflation.	AMT exemption (equivalent to a deduction) of \$58,000 for married taxpayers filing jointly and \$40,275 for single taxpayers and heads of household in 2005; \$45,000 and \$33,750 thereafter (not indexed for inflation). Exemption phases out at 25% rate for high-income taxpayers.
Personal exemptions	Deduction of \$3,100 per family member and dependent allowed against regular tax in 2004. Indexed for inflation. Phased out for high-income tax payers.	Not allowed.
Head of household status	Single heads of household qualify for lower tax rates and larger standard deductions than singles.	Heads of household face the same tax rates and AMT exemption as singles.
Itemized deductions	Allowed under regular tax if standard deduction is not taken. Itemized deductions phase out at 3% rate for taxpayers with higher incomes (certain items do not phase out).	If deductions are itemized under regular tax, tax preference items are subtracted from the deductions for AMT purposes. No phaseout for higher-income taxpayers.
State and local tax deductions	Income and property taxes are allowed as itemized deductions. Sales taxes are allowed for 2004 and 2005.	Not allowed.
Miscellaneous deductions	Miscellaneous expenses including tax preparation fees, unreimbursed employment expenses, and certain legal fees in excess of 2% of AGI are allowed as itemized deductions.	Not deductible.
Home mortgage interest	Mortgage interest for the first or second home and second mortgages and home equity lines are deductible subject to certain limits.	Only deductible if the proceeds are used to improve, buy, or build the taxpayer's home.
Unreimbursed medical expenses	Expenses in excess of 7.5% of AGI are allowed as itemized deductions.	Expenses in excess of 10% of AGI are allowed as itemized deductions.
Treatment of capital gains and dividends	Dividends and capital gains taxed at 5% and 15% from 2005 to 2008; 0% and 15% in 2008. Capital gains taxed at 10% and 20% from 2009 onwards while dividends are taxed as regular income.	Same.
Net operating loss	Deducted from taxable income.	Not deductible, but may be carried forward to offset future income.
Incentive stock options	Exercising an ISO generates no tax liability. Selling the stock generates capital gains taxes on the difference of the sale price and the option price.	Exercising a stock option generates taxable income equal to the difference between the exercise price and the option price if the stock is not sold within the same year. Selling the stock generates capital gains taxes on the difference between the sale price and the exercise price.
Other timing preferences	Depreciation of equipment, oil depletion allowances, allowances for intangible drilling costs, or mining exploration and development costs are allowed under regular tax.	Deductions for timing preferences are allowed at a slower rate under the AMT. These preferences generate the AMT credit, which can be taken against regular tax liability in the future years. However, these credits can not be used to lower regular tax liability below the tentative liability for that year.
Child, adoption, and savers credits	Allowed against regular tax.	Allowed against AMT until 2010.
Refundable credits	Allowed against regular tax.	Same.
Foreign tax credit	Allowed against regular tax.	Same.
Nonrefundable personal credits other than above	Allowed against regular tax.	Allowed against AMT through 2005. Not allowed thereafter.
Business tax credits	Allowed against regular tax.	Only certain ones allowed.

**Table 2. Reconciling AMTI and Taxable Income
for AMT Taxpayers in 2002 ¹**

	Number of Taxpayers with AMT Preference (in millions)	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	2.0	42,103	51.1
2 Personal exemptions	1.9	17,801	21.6
3 Miscellaneous deductions above the 2-percent floor	1.0	16,741	20.3
4 Regular tax NOLs	0.0	9,811	11.9
5 Incentive stock options	0.0	1,987	2.4
6 Passive activity loss	0.3	1,197	1.5
7 Standard deduction	0.2	1,026	1.2
8 Post-1986 depreciation	0.3	965	1.2
9 Beneficiaries of estates	0.1	478	0.6
10 Private activity bond interest	0.1	437	0.5
11 Medical deductions	0.2	414	0.5
12 Long-term contracts	0.0	397	0.5
13 Other and related	0.0	351	0.4
14 Capital gains exclusion (section 1202)	0.0	224	0.3
15 Depletion	0.0	193	0.2
16 Loss limitations	0.0	179	0.2
17 Certain home-mortgage interest	0.0	163	0.2
18 Intangible drilling costs	0.0	68	0.1
19 Circulation expenses	0.0	5	0.0
20 R&E expenditures	0.0	5	0.0
21 Mining costs	0.0	2	0.0
22 Large partnerships	0.0	0	0.0
23 Installment sales	0.0	-3	0.0
24 Investment interest	0.0	-67	-0.1
25 Disposition of property	0.2	-1,257	-1.5
26 State and local tax refunds	1.0	-2,409	-2.9
27 AMT NOLs	0.0	-3,383	-4.1
28 Limit on itemized deduction under regular tax	1.1	-5,313	-6.5
29 Undetermined		211	0.3
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Total Preferences and Adjustments	2.2	82,326	100.0
= AMTI		400,496	

Source: Office of Tax Analysis, Department of the Treasury (unpublished tabulation).

¹ AMT taxpayers are defined as those affected by the AMT, including those who lose tax credits

Table 3. Effects of Repealing the AMT, 2010

AGI (thousands of dollars)	% of Tax Units	% of Income Tax	Change in Tax						Marriage Penalty		Marginal Tax Rate On Earnings	
			Average (\$)	As % of Income	Tax Increase		Tax Cut		% with Penalty	% with Bonus	Current Law	Under Option
					% of Tax Units	Average (\$)	% of Tax Units	Average (\$)				
Less than 0	1.1	0.0	-27	0.0	0.0	0	0.1	-46,000	9.3	40.2	-0.5	-0.7
0-10	21.4	-0.6	-1	0.0	0.0	0	0.0	-39,000	7.2	15.4	-3.2	-3.2
10-20	12.8	-1.5	0	0.0	0.0	0	0.0	0	9.1	83.4	5.9	5.9
20-30	11.5	0.2	0	0.0	0.0	0	0.0	-571	10.7	87.8	16.9	16.9
30-40	9.3	2.1	-5	0.0	0.0	0	1.1	-461	13.3	85.8	18.2	18.0
40-50	7.6	3.2	-26	-0.1	0.0	0	3.6	-709	23.6	75.3	19.1	18.8
50-75	13.8	10.1	-122	-0.2	0.0	0	14.3	-852	39.7	58.8	20.3	18.9
75-100	8.5	9.9	-668	-0.8	0.0	0	51.7	-1,292	30.6	69.2	24.2	20.5
100-200	10.8	25.5	-2,154	-1.6	0.0	0	82.1	-2,622	39.9	60.0	28.7	26.4
200-500	2.6	17.9	-9,310	-3.3	0.0	0	97.4	-9,563	43.9	56.0	32.8	31.4
500-1,000	0.4	9.3	-8,728	-1.3	0.0	0	61.5	-14,195	44.9	55.1	31.3	35.1
More than 1,000	0.2	24.1	-18,235	-0.6	0.0	0	23.0	-79,437	56.5	43.5	34.4	35.0
All	100.0	100.0	-628	-1.1	0.0	0	18.4	-3,406	28.4	63.1	24.7	23.4

Addendum: Static change in liability = -\$101 billion

Notes: Simulations show distribution of tax changes for nondependent tax units age 18 or over in calendar year 2010. Tax changes are on a liability basis and do not account for behavioral responses. They are not revenue estimates. Marriage penalty and bonus calculations apply only to married filing joint tax units. They assume that the alternative to marriage is a divorce in which the lesser earning spouse claims all children as dependents and nonlabor income is split equally. See Weiner and Williams (1997) for discussion and alternative models. The marginal tax rates on earnings are weighted by earnings.

Table 4. Repeal Regular Tax and Allow Credits against AMT, 2010

AGI (thousands of dollars)	% of Tax Units	% of Income Tax	Change in Tax						Marriage Penalty		Marginal Tax Rate On Earnings	
			Average (\$)	As % of Income	Tax Increase		Tax Cut		% with Penalty	% with Bonus	Current Law	Under Option
					% of Tax Units	Average (\$)	% of Tax Units	Average (\$)				
Less than 0	1.1	0.0	-2	0.0	0.0	0	0.0	0	11.5	32.4	-0.5	-0.5
0-10	21.4	-0.7	-12	-0.5	0.0	0	8.5	-139	7.5	14.1	-3.2	-5.7
10-20	12.8	-2.2	-310	-2.1	0.0	0	54.2	-571	14.7	45.3	5.9	-1.1
20-30	11.5	-1.6	-1,121	-4.5	0.0	0	86.3	-1,299	15.8	33.6	16.9	5.2
30-40	9.3	-0.4	-1,993	-5.7	0.0	0	94.7	-2,104	18.3	49.5	18.2	14.6
40-50	7.6	1.2	-2,062	-4.6	0.0	0	95.3	-2,165	24.3	60.2	19.1	20.1
50-75	13.8	7.7	-1,625	-2.6	0.0	0	86.5	-1,879	50.0	47.1	20.3	24.7
75-100	8.5	10.4	-715	-0.8	0.0	0	52.4	-1,365	64.8	34.8	24.2	26.7
100-200	10.8	29.8	-233	-0.2	0.0	0	21.9	-1,065	70.0	30.0	28.7	28.9
200-500	2.6	22.2	-164	-0.1	0.0	0	9.8	-1,675	64.2	35.7	32.8	32.7
500-1,000	0.4	10.1	-4,485	-0.7	0.0	0	45.4	-9,887	69.1	30.8	31.3	28.1
More than 1,000	0.2	23.5	-77,425	-2.6	0.0	0	81.0	-95,583	75.9	23.8	34.4	27.9
All	100.0	100.0	-1,030	-1.8	0.0	0	54.1	-1,903	44.8	37.2	24.7	24.0

Addendum: Static change in liability = -\$165 billion

See notes to table 3 for assumptions underlying simulations.

Table 5. Repeal Regular Tax but Allow Credits against AMT and Index All Brackets from 2005 Levels, 2010

AGI (thousands of dollars)	% of Tax Units	% of Income Tax	Change in Tax						Marriage Penalty		Marginal Tax Rate On Earnings	
			Average (\$)	As % of Income	Tax Increase		Tax Cut		% with Penalty	% with Bonus	Current Law	Under Option
					% of Tax Units	Average (\$)	% of Tax Units	Average (\$)				
Less than 0	1.1	-0.1	-5	0.0	0.0	0	0.1	-8,000	12.1	30.4	-0.5	-0.6
0-10	21.4	-0.8	-12	-0.5	0.0	0	8.5	-140	7.5	13.9	-3.2	-5.7
10-20	12.8	-2.8	-310	-2.1	0.0	0	54.2	-571	14.7	45.1	5.9	-1.1
20-30	11.5	-2.1	-1,136	-4.6	0.0	0	86.3	-1,315	15.9	32.8	16.9	4.7
30-40	9.3	-1.0	-2,293	-6.6	0.0	0	95.7	-2,395	20.3	33.8	18.2	4.4
40-50	7.6	-0.3	-3,456	-7.7	0.0	0	98.4	-3,510	24.9	36.8	19.1	7.3
50-75	13.8	2.9	-4,426	-7.2	0.0	0	99.3	-4,458	31.8	48.8	20.3	15.0
75-100	8.5	6.8	-4,936	-5.7	0.0	0	99.8	-4,945	45.8	51.8	24.2	24.5
100-200	10.8	28.8	-5,030	-3.8	0.0	0	99.9	-5,037	59.5	40.3	28.7	27.9
200-500	2.6	25.8	-5,619	-2.0	0.2	2,000	99.2	-5,669	56.5	43.4	32.8	33.4
500-1,000	0.4	12.9	-4,912	-0.7	0.6	2,250	95.1	-5,175	69.1	30.8	31.3	28.2
More than 1,000	0.2	29.9	-77,747	-2.6	0.5	2,500	94.7	-82,092	76.2	23.5	34.4	27.9
All	100.0	100.0	-2,571	-4.4	0.0	2,067	71.2	-3,611	36.1	40.2	24.7	20.7

Addendum: Static change in liability = -\$412 billion

See notes to table 3 for assumptions underlying simulations.

Table 6. Table 5 and Eliminate Exemption Phaseout, Flat 28 Percent Rate, Eliminate Marriage Penalties Exemption, 2010

AGI (thousands of dollars)	% of Tax Units	% of Income Tax	Change in Tax						Marriage Penalty		Marginal Tax Rate On Earnings	
			Average (\$)	As % of Income	Tax Increase		Tax Cut		% with Penalty	% with Bonus	Current Law	Under Option
					% of Tax Units	Average (\$)	% of Tax Units	Average (\$)				
Less than 0	1.1	-0.1	-8	0.0	0.0	0	0.1	-13,000	12.0	30.5	-0.5	-0.6
0-10	21.4	-1.0	-12	-0.5	0.0	0	8.5	-140	7.5	13.9	-3.2	-5.7
10-20	12.8	-3.4	-310	-2.1	0.0	0	54.2	-571	14.7	45.1	5.9	-1.1
20-30	11.5	-2.6	-1,136	-4.6	0.0	0	86.3	-1,316	15.9	32.8	16.9	4.7
30-40	9.3	-1.2	-2,292	-6.6	0.0	0	95.7	-2,394	20.3	33.8	18.2	4.5
40-50	7.6	-0.4	-3,441	-7.7	0.0	0	98.4	-3,495	24.8	36.9	19.1	7.8
50-75	13.8	3.6	-4,446	-7.2	0.0	0	99.3	-4,478	24.2	51.4	20.3	12.6
75-100	8.5	4.3	-7,047	-8.2	0.0	0	99.8	-7,061	4.4	85.7	24.2	10.8
100-200	10.8	24.7	-9,535	-7.1	0.0	0	99.9	-9,547	18.8	80.3	28.7	27.1
200-500	2.6	26.5	-14,834	-5.2	0.0	0	99.9	-14,852	36.4	62.9	32.8	28.1
500-1,000	0.4	14.0	-24,074	-3.6	0.0	0	100.0	-24,074	41.7	58.0	31.3	28.0
More than 1,000	0.2	35.7	-96,760	-3.2	0.0	0	99.7	-97,016	57.5	42.2	34.4	27.9
All	100.0	100.0	-3,602	-6.1	0.0	0	71.3	-5,055	17.8	56.3	24.7	17.7

Addendum: Static change in liability = -\$578 billion

See notes to table 3 for assumptions underlying simulations.

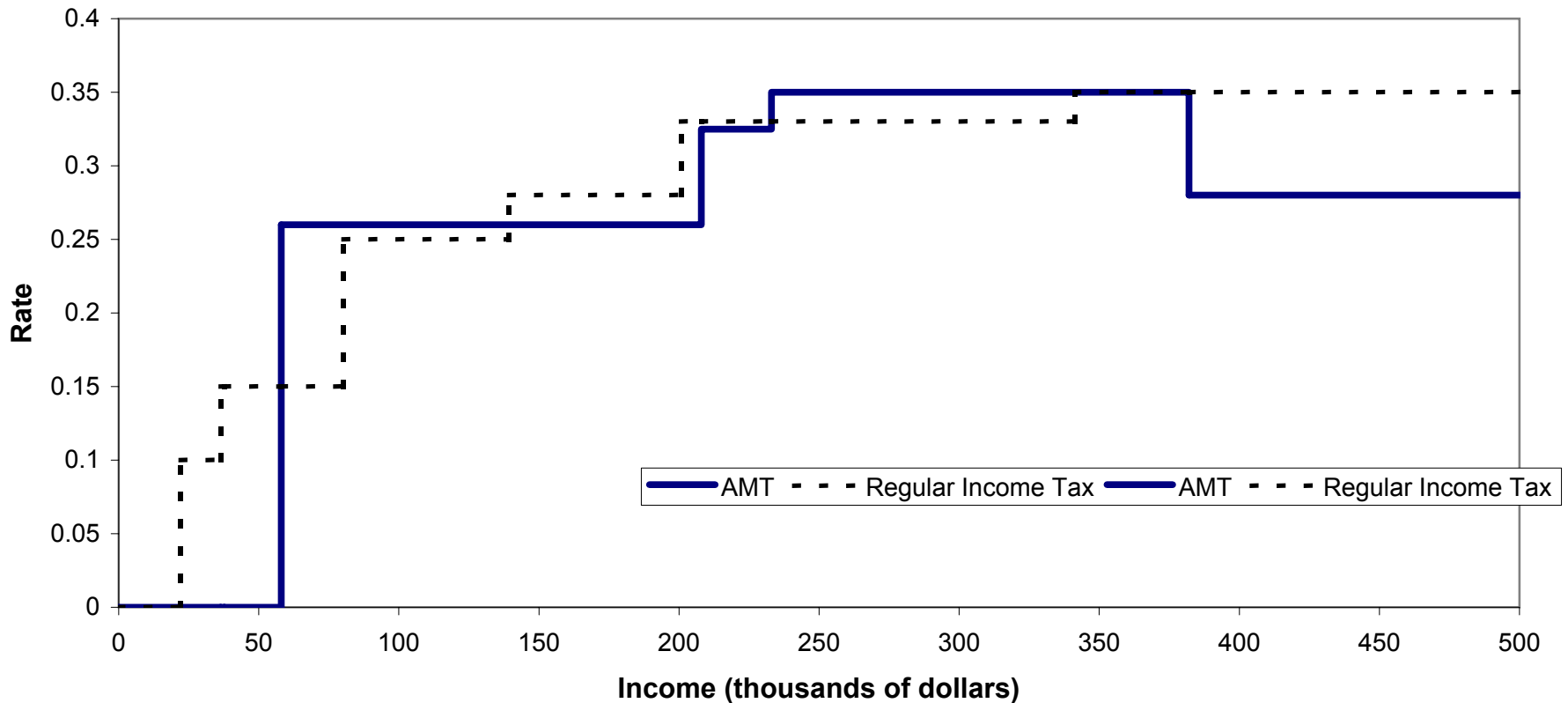
Table 7. Table 6 and Revenue Neutral (49 Percent Flat Rate), 2010

AGI (thousands of dollars)	% of Tax Units	% of Income Tax	Change in Tax						Marriage Penalty		Marginal Tax Rate On Earnings	
			Average (\$)	As % of Income	Tax Increase		Tax Cut		% with Penalty	% with Bonus	Current Law	Under Option
					% of Tax Units	Average (\$)	% of Tax Units	Average (\$)				
Less than 0	1.1	0.0	4	0.0	0.0	0	0.1	-4,000	12.0	30.5	-0.5	-0.5
0-10	21.4	-0.6	-11	-0.4	0.0	22,000	8.5	-139	7.5	13.9	-3.2	-5.7
10-20	12.8	-1.9	-310	-2.1	0.0	0	54.2	-571	14.7	45.1	5.9	-1.1
20-30	11.5	-1.5	-1,136	-4.6	0.0	0	86.3	-1,315	15.9	32.8	16.9	4.7
30-40	9.3	-0.7	-2,276	-6.5	0.0	0	95.7	-2,378	20.3	33.8	18.2	4.9
40-50	7.6	-0.1	-3,279	-7.3	1.1	621	97.3	-3,375	24.7	37.0	19.1	13.7
50-75	13.8	4.1	-3,210	-5.2	11.4	1,491	87.9	-3,845	22.0	53.6	20.3	22.0
75-100	8.5	4.7	-4,934	-5.7	26.0	4,119	73.8	-8,132	3.0	87.1	24.2	18.9
100-200	10.8	24.3	-1,677	-1.3	35.1	7,962	64.8	-6,904	18.0	81.2	28.7	46.8
200-500	2.6	25.5	18,976	6.7	93.5	21,003	6.4	-10,117	35.2	64.1	32.8	49.3
500-1,000	0.4	13.4	78,324	11.6	94.7	83,547	5.1	-15,833	41.2	58.5	31.3	49.4
More than 1,000	0.2	32.8	340,430	11.4	94.2	363,207	5.5	-30,571	56.8	42.9	34.4	49.1
All	100.0	100.0	-46	-0.1	10.7	19,412	60.6	-3,497	17.0	57.2	24.7	30.6

Addendum: Static change in liability = -\$8 billion

See notes to table 3 for assumptions underlying simulations.

Figure 1. AMT Rate Schedule for Couples Compared with Regular Tax Schedule, 2004



Note: Figure assumes married couple filing jointly with two children claiming standard deduction against regular income tax and no other deductions or credits. All income is from wages. Figure does not show the effect of the personal exemption and itemized deduction phaseouts under the regular tax.