The Individual AMT: Ten Facts and Projections

1. AMT coverage will skyrocket. By 2010, the AMT will affect 36 million taxpayers --about one-third of all tax returns--up from 1 million in 1999. This would make the AMT as common as the mortgage interest deduction is today. The AMT will be the *de facto* tax system for households with income between $100,000 and $500,000, 95 percent of whom will face the tax. It will encroach dramatically on the middle class, affecting 43 percent of households with income between $50,000 and $75,000 and 79 percent of households with income between $75,000 and $100,000 (compared to less than 3 percent for each group in 2002).

2. The expansion occurs because the AMT is not indexed for inflation and because of last year's tax cut. Holding income fixed, the lack of indexing raises AMT liabilities every year, while the tax cut reduces regular income tax liabilities. The 2001 tax cut will double the number of people subject to the AMT in 2010 (from 18 million to 36 million). If the AMT had been indexed when the regular income tax was and had the 2001 tax cut not been enacted, only 300,000 households would face the AMT, now or in 2010.

3. The AMT is notoriously and pointlessly complex. The Internal Revenue Service and the Taxpayer Advocate have flagged the AMT as one of the most complicated tax provisions to comply with and administer. Most people required to fill out the AMT forms end up owing no additional taxes. The AMT also creates complicated interactions with the regular income tax.

4. The AMT raises marginal tax rates. By 2010, the AMT will impose higher marginal tax rates than the regular income tax does for 93 percent of AMT taxpayers.

5. The AMT is poorly targeted. Although originally intended to curb tax sheltering, the AMT raises less than 5 percent of its revenue from anti-sheltering provisions, such as accelerated deprecation or oil depletion allowances. In 2010, only about 1 percent of AMT taxpayers will be subject to the tax due to anti-sheltering rules.

6. The AMT imposes penalties on marriage and having children. Couples will be more than 20 times as likely as singles to face the AMT in 2010. Because the AMT prohibits deductions for dependents, 85 percent of married couples with two or more children will face the AMT, 97 percent among such couples with income between $75,000 and $100,000. About 6 million taxpayers will face the AMT in 2010 simply because they have children.

7. The AMT does effectively reduce the number of high-income filers who pay no income tax. In 2001, an estimated 100 tax filers with income over $1 million avoided all income tax, but at least 700 would have if not for the AMT. Even so, this goal could be accomplished more simply in the regular income tax.

8. Repeal would be expensive and regressive. Repealing the AMT in 2003 would reduce revenues by $650 billion through 2012 if the 2001 tax cut expires as scheduled in 2010, and $800 billion if the tax cut is extended. By 2008, it will cost more to repeal the AMT than to zero out the regular income tax. More than 75 percent of the benefits of repeal would go to households with income above $100,000 in 2010.

9. Sensible reforms could spare the middle class. Indexing the AMT for inflation, allowing deductions for dependent exemptions, and allowing personal credits against the AMT would reduce the number of AMT taxpayers in 2010 by 80 percent, including over 96 percent of those with incomes under $100,000.

10. Paying for reform is a key issue. Without revenue offsets, the reform above would reduce revenues by $420 billion (if the 2001 tax cut sunsets, $530 billion if it is extended). Freezing at current levels the cuts in upper income tax rates and in the estate tax that were enacted in 2001 would cover about 85 percent of the revenue loss.

Source: "The Individual AMT: Problems and Potential Solutions" by Leonard E. Burman, William G. Gale, Jeffrey Rohaly, and Benjamin Harris, available at www.taxpolicycenter.org. For further information, please contact UI public affairs office at paffairs@ui.urban.org. Note: Income is reported in constant 2001 dollars.

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