The Alternative Minimum Tax

Assault on the Middle Class

By Leonard E. Burman

In a tax code with no shortage of ironies, the alternative minimum tax (AMT) stands out. Created by Congress in 1969, it was aimed at millionaires, but relatively few millionaires pay it. It is billed as a low-rate levy, but most of its victims face higher taxes because of it. It undermines two widely lauded reforms of the income tax – restoring both bracket creep and the marriage penalty. And though nobody favors keeping this Frankenstein alive, it will be very difficult to kill.

Welcome to tax policy in the Twilight Zone.

At first glance, the AMT may seem simple and fair. But for reasons nobody

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imagined when it was created, the AMT bull's-eye hangs not on folks with Cayman Islands bank accounts, but on upper-middle-income families with lots of kids who happen to live in high-tax states. And it doesn't just raise their taxes. It plagues them with mind-numbing complexity.

Tax analysts have proposed a dozen ways to wring the perversities out of the present AMT law. All, however, present political challenges, and some would sharply cut revenue even as federal spending obligations begins to swell with the retirement of the baby boomers. But I get ahead of myself.

HOW IT WORKS

The AMT is conceptually straightforward. First, you compute your regular income tax. Next, you add back some of the deductions that reduce taxable income, deduct a flat $45,000 ($33,750 for singles) and calculate the tax on the balance at rates of 26 or 28 percent. Then you compare the two figures and pay whichever is higher.

But there's a big catch: the bulk of the AMT's taxable income adjustments have nothing to do with anybody's notion of loopholes, which is what the AMT was supposed to plug. The largest is the deduction for state and local income and property taxes, which accounted for 63 percent of all AMT adjustments in 2006 tax returns. Personal exemptions – the $3,300 deduction (in 2006) for each family member and dependent – accounted for another 22 percent of AMT addbacks, while miscellaneous itemized deductions like employee business expenses make up 11 percent of the total.

Not surprisingly, given the preponderance of middle-class preference items, the people most likely to be hit by the AMT are big families in states with high taxes. When the Urban Institute–Brookings Tax Policy Center first analyzed the tax in 2002, we liked to point out that the Brady Bunch – six kids, professional dad, stay-at-home mom – would be hit by the AMT big time. But the AMT's reach is expanding beyond them. Unless Congress passes some form of relief, a couple with four children earning just $75,000 and taking the standard deduction (another AMT preference item) will see their taxes more than double this year because of the AMT.

THE AMT MAZE

Some of the AMT's complexities follow from the complexities of the regular income tax. For example, under the regular tax, high-bracket taxpayers lose part of their itemized deductions (3 percent of income above certain thresholds) but that "claw-back" doesn't apply under the AMT. Thus, the addition to taxable income under the regular income tax is – yup, you guessed it – a subtraction from the AMT.

Then there are a host of complexities unique to the AMT. To start, the $45,000 AMT exemption is phased out for taxpayers with AMT incomes of more than $150,000 – much like the phaseout of itemized deductions under the regular income tax. But this phase-out is much faster: every dollar of income in the AMT phase-out range increases taxable income by $1.25. Thus, the nearly flat AMT tax schedule (two rates of 26 and 28 percent) is in fact a hump-shaped beast with effective tax rates of 32.5 and 35 percent in the exemption phase-out range before the advertised top rate of 28 percent kicks back in at very high income levels.

The AMT also treats many tax credits in an extraordinarily complicated way. Technically, credits can't subject you to the AMT. But for reasons too mind-numbing to detail, the AMT effectively disallows their use. By the same token, the AMT changes the benefits of postponing tax liability through techniques such as accelerated asset depreciation. It increases taxes early in the life of a productive asset and reduces them later. And while the AMT doesn't change the total amount of taxes paid, it does add byzantine layers to tax accounting by effectively making taxpayers keep two sets of books – one with regular tax

LEONARD BURMAN is the director of the Tax Policy Center in Washington and a senior fellow at the Urban Institute. **This article draws heavily on collaborative research with Bill Gale, Ben Harris, Greg Leiserson, Jeff Rohaly, Mohammed Adeel Saleem and David Weiner. Bob Williams provided helpful comments.**

deductions and another with the deductions allowed for AMT purposes.

These particular complexities can be managed with tax software, but there are others that confound even computerized tax preparation and planning. For example, in order to figure out how much of a state tax refund is taxable in the current year, individuals who were hit by the AMT in the previous year must figure out the amount of state income tax, if any, that they could have deducted in prior year had they not been subject to the AMT. This calculation is so baffling that it is beyond the reach of TurboTax.

Wait: the fun has only just begun. Under the regular income tax, taxpayers claim the standard deduction as long as it exceeds the amount of itemized deductions. But taxpayers subject to the AMT should itemize even if their standard deduction is greater, as long as their non-preference itemized deductions exceed the portion of the standard deduction that makes their regular tax less than the AMT. Don't follow that last sentence? Obviously, you don't have a future as a tax accountant.

The AMT mess is made even messier by Congress's propensity to patch the law every year or two. The patch consists of a temporarily higher exemption designed to keep politically unacceptable numbers of taxpayers from becoming subject to the AMT. This is often enacted on a retroactive basis *after* the previous patch has expired. For example, as of August 2007, the maximum exemption for couples is set at $45,000. By the end of the year, Congress will almost surely raise the exemption to at least the level set last year – $62,550. If it doesn't, taxpayers could owe much more tax than they expect.

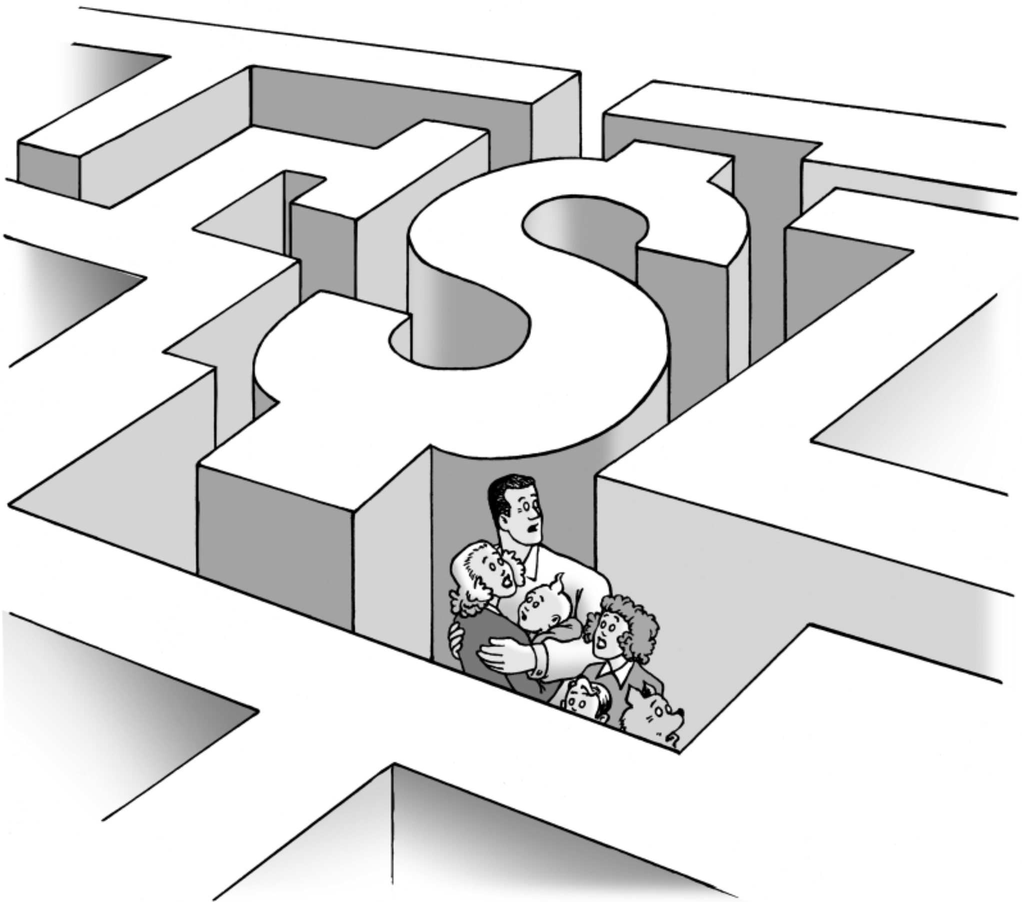
Even the IRS is confused. Its Web site has a calculator to help wage earners figure their exemptions for withholding-tax purposes. It recommends that the sample family with four kids and $75,000 of income claim 11 exemptions, and promises a small refund at the end of the year. In fact, thanks to the AMT, that family would owe almost $2,000 in additional tax in April if it followed the IRS advice.

EFFECTIVE TAX RATES ON ORDINARY INCOME AND LONG-TERM CAPITAL GAINS UNDER THE AMT, BY INCOME, 2007

INCOME (AMTI) IN DOLLARS		TAX RATE (PERCENT)	
SINGLE	JOINT	ORDINARY INCOME	CAPITAL GAINS
$33,750-112,499	$45,000-149,999	26.0%	15.0%
$112,500-189,499	$150,000-205,999	32.5	21.5
$190,000-247,499	$206,000-329,999	35.0	22.0
$247,500 and over	$330,000 and over	28.0	15.0

HOW DID THIS HAPPEN?

In January 1969, Treasury Secretary Joseph Barr testified that 155 very-high-income households owed no federal income tax in 1966. The public wasn't happy: Congress received more constituent letters in 1969 about those 155 non-taxpayers than about the Vietnam War.



Lawmakers could have explained that the tax avoiders were taking advantage of tax breaks that advanced worthwhile social objectives – which would have been a hard sell. Or they could have closed some loopholes, but those breaks had powerful constituencies. Instead, they created a new tax to avoid such embarrassments in the future.

The original minimum tax was an add-on to the regular income tax – 10 percent of the amount of certain "tax preference" items, like accelerated depreciation, stock options, oil depletion allowances and the excluded portion of long-term capital gains. In 1978, a new wrinkle was added: a second alternative tax, which was based on an expanded measure of taxable income and an alternative rate schedule. And in 1982, the original minimum tax was dumped, leaving only the AMT.

Very few taxpayers were initially subject to the AMT. But in 1982 a policy change destined the AMT to grow dramatically: The regular income tax was indexed for inflation, but the AMT was not. Since taxpayers paid whichever amount was higher, inflation pushed ever more taxpayers into the AMT netherworld.

In 1990, the AMT rate was increased from 21 to 24 percent at the same time that the top ordinary income tax rate increased from 28 to 31 percent. In 1993, the AMT rates increased again, to 26 percent on the first $175,000 of AMT income and 28 percent at higher incomes, as the top regular income tax rate increased to 39.6 percent.

The 2001 tax cuts expanded the reach of the AMT. Regular income tax rates were

pared sharply, without corresponding changes to the AMT. And since AMT is the higher of the tax calculated under the AMT rules and tax calculated under the regular method, anything that cuts the regular income tax funnels more taxpayers into the realm of the AMT. This could have been avoided by cutting AMT rates to match. But the fix would have added about $300 billion to the 10-year projected cost of the 2001 law, or forced Congress to scale back tax cuts.

Since 2001, the AMT exemption has been increased, or a temporary increase extended, three times. The last extension expired at the end of 2006 – though, as noted, another temporary extension is likely to be enacted before this article appears in print.

WHO PAYS?

Some four million families were caught in the AMT's web in 2006. Unless Congress renews the temporary patch, that number will grow to 23 million in 2007 and will likely reach 32 million three years later, even if inflation remains modest. If the Bush tax cuts are extended beyond their 2011 expiration date, roughly 52 million families – almost half of all taxpayers – will be hit by the AMT in 2017.

While most AMT payers are well off, the tax is steadily encroaching on middle-income families. By 2010, half of all tax filers making between $75,000 and $100,000 will pay the AMT, up from 36 percent this year and less than 1 percent in 2006, when the temporary AMT fix was still in place. By contrast, in 2010, only 39 percent of million-dollar-earners will be liable for the AMT.

Equally perverse, the AMT hits people least deserving of the burden:

Large families. Big families naturally receive more personal exemptions, which significantly reduce their regular income tax liability. But since personal exemptions get added back for purposes of calculating the AMT, families with three or more children were almost four times as likely to owe AMT in 2006 as those with no children. By 2010, almost half of families with three or more children will find themselves subject to the AMT, compared with only 17 percent of those without children.

Residents of high-tax localities. Deductions for state and local taxes also reduce regular tax liability, increasing the likelihood that a family in a high-tax jurisdiction will owe AMT. In 2007, households in high-tax states are almost three times more likely to be on the AMT than those in low-tax jurisdictions. But the AMT net is expanding: In 2010, filers in high-tax states will only be about 30 percent more likely to fall prey to the AMT than their low-tax-state counterparts.

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Married people. Most married couples pay less tax under the regular tax schedule than they would if they were single with the same incomes. But not under the AMT. The AMT exemption is only one-third larger for couples than for singles, while the standard deduction for couples under the regular income tax is twice that for singles. If the AMT patch is not renewed, married couples (who are also more likely to have kids and claim extra personal exemptions) will be 15 times more likely than singles to owe AMT.

Ill people. Another common situation likely to trigger AMT liability is high medical expenses. Medical outlays in excess of 7.5 percent of income are deductible under the regular tax, but the threshold is higher – 10 percent of income – under the AMT. Thus, taxpayers with both high incomes and high medical expenses can be hit hard by the AMT.

COULD ANYBODY INVENT A WORSE TAX?

Remember the political embarrassment the AMT was meant to eliminate – those 155 high-income earners who paid no tax in 1966? In 2005, 711 returns reported incomes over $1 million without any tax liability.

In the process of failing to solve a small problem, the AMT managed to create some big ones. A good tax system promotes economic efficiency, or at least does not undermine efficiency very much. Yet, as noted, most AMT taxpayers actually face higher effective marginal tax rates than they would under the regular income tax, further distorting decisions to work and save – and, ironically, encouraging tax avoidance schemes. The AMT also makes tax planning difficult, and this uncertainty is itself inefficient.

By the same token, the AMT erodes the fairness of the tax laws. Fairness, in this context, has two dimensions. Horizontal equity – the degree to which taxpayers with equal incomes pay equal taxes – is an almost universally agreed upon goal of tax policy. And on this score, the AMT is at best a mixed bag.

On the one hand, by negating some tax breaks in the regular income tax, it does reduce the ways filers can escape taxation. On the other, some of the AMT preference items represent adjustments to income that most people would consider legitimate. For example, common sense suggests that the tax on a lawsuit award should be calculated net of lawyers' fees and other costs. Yet the AMT often disallows the deduction for those expenses.

The more controversial dimension of fairness is vertical equity, or progressivity. The idea is that average tax rates should increase with income – though by how much is widely disputed. The AMT promotes vertical equity in the sense that most of the tax is paid by people with fairly high incomes. However, it is becoming less progressive as more and more middle-income households become subject to the tax. Note, too, that most very-high-income taxpayers are untouched by the AMT – nobody's notion of fairness.

The most basic role of a tax system is, of course, to raise revenue, and this would seem to be where the AMT shines. Because it is not indexed for inflation, it could, in theory, become a money machine. The Congressional Budget Office has projected that if the AMT continues in its present form, it will take in more than 2 percent of GDP by 2050 (compared with 0.1 percent in 2005).

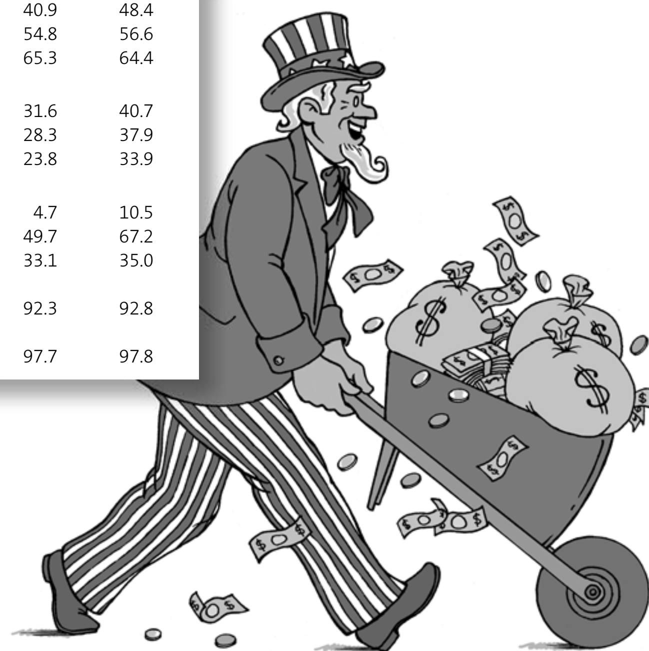
Of course, these projections assume that Congress will allow the alternative minimum tax to extend its reach deep into the middle class, which hasn't happened thus far because lawmakers extend temporary reprieves by raising the AMT exemption. The amazing revenue capacity of the AMT has thus been almost entirely unrealized.

Indeed, one could argue that the AMT has tended to increase budget deficits because it was used to mask a large portion of the projected consequences of the tax cuts enacted since 2001. The Bush administration and its allies understood at the time that the AMT would "take back" a significant portion of the tax cuts, thereby keeping the estimated 10-year revenue loss from cuts within its $1.35 trillion budget. And as the AMT's reach grows, so does the opportunity to use it to

WHO PAYS THE AMT?
(PERCENTAGES)

	CURRENT LAW				CURRENT LAW EXTENDED[a]
GROUP	**2006**	**2007**	**2010**	**2017**	**2017**
ALL TAXPAYERS	4.0%	25.9%	33.6%	34.7%	48.6%
TAX FILERS BY CASH INCOME (THOUSANDS OF $2006)					
Less than $30	*	*	*	0.1	0.1
$30–50	*	1.3	3.0	12.2	13.0
$50–75	0.2	9.0	17.1	30.1	38.8
$75–100	0.7	36.2	49.9	53.7	67.2
$100–200	4.8	70.8	80.4	61.7	92.3
$200–500	50.9	89.7	94.3	77.7	96.8
$500–1,000	49.3	57.2	72.2	27.0	73.8
$1,000 and more	31.4	33.8	38.8	20.3	40.1
TAX FILERS BY NUMBER OF CHILDREN					
0	1.9	11.4	16.8	15.9	28.5
1	2.7	24.8	32.4	40.9	48.4
2	5.0	34.5	42.0	54.8	56.6
3 or more	7.4	39.6	48.4	65.3	64.4
TAX FILERS BY STATE TAX LEVEL					
High	4.6	21.8	27.7	31.6	40.7
Middle	2.3	18.5	25.0	28.3	37.9
Low	1.6	15.3	21.1	23.8	33.9
TAX FILERS BY FILING STATUS					
Single	0.9	2.4	3.8	4.7	10.5
Married Filing Jointly	5.1	36.7	47.9	49.7	67.2
Head of Household	1.3	10.4	17.0	33.1	35.0
MARRIED COUPLE, 2+ KIDS, $75K < CASH INCOME < $100K	0.2	59.1	73.6	92.3	92.8
MARRIED COUPLE, 2+ KIDS, $75 < AGI < $100K	0.8	78.2	88.6	97.7	97.8

SOURCE: Urban-Brookings Tax Policy Center Microsimulation Model
[a]Includes all 2010 sunset provisions in current law.



fudge the budget numbers. Under current law, the AMT will reclaim almost 28 percent of the individual income tax cuts in 2010.

Actually, the AMT undermines fiscal discipline in more ways than one. Since members of Congress in both parties don't want to face the wrath of 23 million angry new AMT taxpayers, extending the AMT patch becomes must-pass legislation as Congress approaches the end of a session. Savvy lawmakers know that they can attach pork barrel items to the AMT extension and still be guaranteed a hefty majority. In principle, Congress is now committed to paying for new tax and spending initiatives. However, the support for AMT relief is so strong that opponents of these "paygo" rules might one day muster the 60-vote super-majority in the Senate needed to backslide.

WHAT TO DO

There are two general approaches to solving

the AMT quandary: repeal it, or change its terms so that it no longer affects middle-income households. And it would be hard to find an elected official who wouldn't support one or the other. But Washington is far from reaching any consensus on how to pay for such reform, or even whether AMT reform needs to be offset by other tax increases or spending cuts.

As dreadful as the AMT is, in my opinion changing it would only be desirable if the lost revenues were offset by other taxes. The nation is on the verge of a fiscal crisis as baby boomers start retiring and the cost of entitlement programs for the elderly balloons. Out-

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right repeal of the AMT without offsetting measures would reduce revenue by more than $800 billion through fiscal year 2017 – even assuming that the 2001–2006 tax cuts expire as scheduled after 2010. If the cuts are extended, the Tax Policy Center has calculated that the 11-year revenue loss would nearly double.

Some argue that the AMT should never have been counted on to generate much revenue. A realistic fiscal baseline, they assert, should assume no AMT. But that argument had at least as much salience in 2001, when AMT revenues were counted on to mask the true cost of the big tax cuts.

Repeal of the AMT would not only be prohibitively expensive but would also extremely regressive. After-tax incomes of families with incomes between $200,000 and $500,000 would rise by 2.7 percent, or an average of nearly $6,000. Meanwhile, taxpayers in the middle-fifth of the income distribution ($35,000–55,000) would see their after-tax incomes rise by an average of only $5.

PAYING FOR OUTRIGHT REPEAL

In my view, the best way to pay for repeal would be to make it part of broad-based tax reform that eliminated a variety of deductions and credits from the regular tax computation, while keeping income tax rates low. President Bush's Advisory Panel on Federal Tax Reform proposed one such plan in 2005, but the deafening silence with which the report was met suggests that Congress is not yet ready to pick its way through the political minefield of a major tax overhaul.

There are a variety of more realistic standalone options to finance AMT repeal that would be significant improvements over current law. One attractive approach would be to combine repeal with an extra 4 percent tax on gross incomes (before most deductions and exemptions) above $200,000 for married couples or $100,000 for individuals. This combination would sharply reduce the number of high-income tax filers who pay no federal income tax. And it would yield as much revenue as it gave up over the next decade.

Some commentators have complained that the surtax would be counterproductive because it would raise marginal tax rates and thus undermine work and investment incentives and encourage tax avoidance. Remember, though, that most AMT taxpayers currently face higher marginal tax rates than they would under the regular income tax. In fact, replacing the alternative minimum tax with the surtax would lower effective rates for all middle-income Americans and for more than a third of those with incomes between

$200,000 and $500,000.

Consider, too, that this tax swap would be highly progressive. Only taxpayers in the top 1 percent of the income distribution would, on average, pay more tax through 2010. Most upper middle-income taxpayers would pay less. The approach also has the advantage of returning the AMT to its original purpose: guaranteeing that high-income earners pay at least some tax. Like the minimum tax initially aimed at the infamous 155, the surtax is an addition to regular tax rather than an alternative tax system. It would be extremely simple to calculate. And it would significantly reduce the number of taxpayers who could avoid income tax altogether.

Alternatively, repeal could be financed by broadening the base of the regular income tax. Take the idea of eliminating the deduction for state and local taxes. This deduction is an inefficient way to help states make their own levies more palatable; it primarily benefits high-income earners, since lower-income filers usually do not itemize. Even when they do, the deduction is worth little to them because they are in low tax brackets.

Assuming that the 2001–2006 tax cuts are allowed to expire as scheduled, repealing the state and local tax deduction would raise more than enough revenue to finance AMT repeal and even give Congress wiggle room to cut income tax rates a bit. The net effect of repealing the AMT, ending the deduction for state and local tax, and lowering tax rates would rearrange tax burdens very little among income groups. This follows from the fact that, although AMT repeal would be regressive, repeal of the state and local income tax deduction would be quite progressive. And, because the loss of state and local tax deductions is the main reason taxpayers now face the AMT, most of those taxpayers would happily forgo those deductions to avoid paying the AMT.

This option would also increase incentives to work, save and invest. Roughly two-thirds of households end up in lower brackets on ordinary income, while almost 14 percent would pay lower rates on capital gains.

Yet another approach would be to offset repeal of the AMT with a hike in regular tax rates for top income earners. For example, to

pay for repeal, the 28 percent, 33 percent and 35 percent brackets could be increased by 15 percent, resulting in marginal rates of 32.3, 38.0, and 40.3 percent through 2010 (when the Bush tax cuts expire). Only the top 1 percent of households would face an average tax increase, amounting to about 2 percent of after-tax income.

Finally, AMT repeal could be used as an opportunity to rein in tax preferences (aka shelters) in the regular income tax code. For example, rolling back the 2003 tax cuts on dividends and capital gains would reduce the incentive to convert ordinary income into these tax-preferred forms. It would also raise some revenue to allow for a smaller increase in ordinary income tax rates. The top three income tax rates would need to increase by just 12 percent under this option.

FINANCING REFORM TO SPARE THE MIDDLE CLASS

Rather than outright repeal, the AMT could be reformed in ways that shielded middle-income taxpayers from its effects. The simplest way would be to make the temporary exemption increase permanent and index the AMT for inflation. If indexation were applied to rate brackets and the phase-out as well as the exemption, only 3.6 million taxpayers would be subject to the AMT in 2007– down from 23 million under current law. And the number of AMT payers with incomes less than $100,000 would fall by more than 98 percent.

A more comprehensive reform would also eliminate from the AMT the middle-class preference items – dependent exemptions, state and local tax deductions and the deductions for miscellaneous expenses and medical expenses, and the standard deduction. This would reduce the number of AMT taxpayers to fewer than 500,000 in 2007 and would spare virtually all taxpayers with incomes below $200,000.

However, these reforms would, of course, substantially reduce federal tax revenues. Indexing the AMT for inflation would probably reduce revenues by about $600 billion from 2007 to 2017, assuming the 2001–2006 tax cuts expire as scheduled. The comprehensive reform package would reduce revenue by almost as much as full repeal.

To offset the revenue loss from extending the higher exemption and indexing the AMT for inflation, the top three regular income tax rates could be increased by 12 percent. Under this option, the top rate would increase from 35 to 39.1 percent through 2010 and from 39.6 to 44.3 percent for 2011 and thereafter. The number of AMT taxpayers would fall to 2.4 million in 2007; only 100,000 of them would have incomes below $100,000. Only the highest-income taxpayers would pay significantly more tax. By 2011, the top 1 percent would pay additional tax equal to about 3 percent of income.

If the preferential rates on capital gains and dividends were disallowed for AMT purposes, the required increase in the top three regular income tax rates would be only 3 percent. The top rate, for example, would need to rise from 35 to 36 percent through 2010 and from 39.6 to 40.7 percent thereafter. This option would reduce the number of AMT taxpayers by more than 80 percent in 2007, to 4.4 million. The top 1 percent would see an average tax increase of about 4 percent of after-tax income in 2007, although the size of that tax increase would decline over time. Taxing capital gains in full under the AMT would also serve as a brake on tax shelters – most of which are now designed to convert highly taxed ordinary income into lightly taxed capital gains.

Since broad reform of the AMT, involving

indexing and eliminating middle-class preference items, would costs substantially more, financing it would require larger increases in tax rates. For example, the increase required in the top three regular rates would be 14 percent, resulting in a top rate of 39.9 percent through 2010 and 45.2 percent thereafter. This option reduces the number of AMT taxpayers to only 300,000 in 2007, including fewer than 100,000 with incomes of less than $200,000. The average tax increase is about 3 percent of income for those in the top 1 percent after 2010.

WHAT NEXT

These options for repealing or reforming the AMT without increasing the deficit suggest that either could be managed with relatively minor dislocations. But all of the options produce losers as well as winners – it isn't possible to design a revenue-neutral alternative to the AMT that doesn't.

Ideally, an AMT fix would be part of a complete overhaul of the income tax – for example, the proposal made by the President's Advisory Panel. Although the AMT is probably the best example of pointless complexity and unintended consequences in the tax system, it is hardly the only one. Addressing all the sources of complexity, unfairness and inefficiency in the tax system is all the more important because America is rapidly approaching a fiscal crisis in which taxes will have to be raised sharply or else cherished entitlement programs – notably Social Security and Medicare – pared back.

That said, the best should not be the enemy of the good. As currently configured, the AMT is an affront to common sense. The sooner we ax this turkey, the better.

Editor's Note: See http://taxpolicycenter.org/taxtopics/AMT.cfm for much more information about the AMT and options to fix it.

Calculating the AMT in 2007

A married couple with four children under age 17 has an income of $75,000 from salaries and interest on their savings account. Under the regular income tax, the family can deduct $20,400 in personal exemptions for themselves and their children. They can also claim a $10,700 standard deduction. For the regular tax, their taxable income of $43,900 places them in the 15 percent tax bracket, and they owe $5,803 in taxes before calculating the AMT or tax credits. A child tax credit of $4,000 ($1,000 per child) reduces the tax to $1,803.

To calculate AMT liability, the couple adds preference items – personal exemptions of $20,400 and the standard deduction of $10,700 – to taxable income and subtracts the married-couple exemption of $45,000, yielding $30,000 in income subject to AMT. That amount is taxed at the first AMT rate of 26 percent, for a tentative AMT liability of $7,800. The child tax credit reduces it to $3,800. Thus, the AMT more than doubles this couple's taxes – from $1,803 to $3,800.

AMT CALCULATION

MARRIED COUPLE FILING JOINTLY WITH FOUR CHILDREN, 2007

CALCULATE REGULAR TAX		CALCULATE TENTATIVE AMT	
Gross income	$75,000	Taxable income	$43,900
SUBTRACT DEDUCTIONS:		**ADD PREFERENCE ITEMS:**	
Personal exemptions (6 x $3,400)	$20,400	Personal exemptions	$20,400
Standard deduction	$10,700	Standard deduction	$10,700
		AMTI	$75,000
		SUBTRACT AMT EXEMPTION:	
		AMT exemption	$45,000
Taxable income	**$43,900**	**Taxable under AMT**	**$30,000**
Tax before credits	**$5,803**	**Tax (tentative AMT)**	**$7,800**
Child tax credit	$4,000	Child tax credit	$4,000
Tax after credits	$1,803	Tax after credits	$3,800
Tax bracket	**15%**	**AMT bracket**	**26%**