

# CRS Report for Congress

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## **Alternative Minimum Taxpayers By State: 2003, 2004, and Projections for 2007**

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### **Summary**

Personal exemptions, itemized deductions for state/local taxes, and miscellaneous itemized deductions account for 90% of the preference items that are subject to tax under the alternative minimum tax (AMT) but not subject to tax under the regular income tax. As a result, over certain income ranges, taxpayers who claim itemized deductions for state/local taxes, miscellaneous deductions, or have large families are more likely to fall under the AMT than taxpayers who do not have these characteristics.

In 2003, just over 2 million taxpayers were subject to the AMT. By 2004, some 3 million taxpayers were subject to the AMT. New Jersey, New York, Connecticut, the District of Columbia, and California had the highest percentage of taxpayers subject to the AMT. Tennessee, South Dakota, Alaska, Alabama, and Mississippi had the lowest percentage of taxpayers subject to the AMT.

By 2007, absent legislative change, some 23 million taxpayers will be subject to the AMT. At that time, whether a married taxpayer has itemized deductions for state/local taxes and/or miscellaneous deductions will become a much less important factor in determining AMT coverage than it is at present. This occurs because, whether they itemize their deductions or not, married taxpayers across a wide range of the income spectrum will be subject to the AMT. This report will be updated as legislative action warrants or as new data become available.

The alternative minimum tax for individuals (AMT) was originally enacted to ensure that high-income taxpayers paid a fair share of the federal income tax. However, the lack of indexation of the AMT coupled with the recent reductions in the regular income tax has greatly expanded the potential impact of the AMT.<sup>1</sup>

Temporary increases in the AMT exemptions are scheduled to expire at the end of 2006. If this occurs, then the number of taxpayers subject to the AMT will rise from around 3.1 million in 2004 to over 23 million in 2007. Absent legislation, by 2010, some

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<sup>1</sup> See CRS Report RL30149, *The Alternative Minimum Tax for Individuals*, by Gregg Esenwein.

31 million taxpayers will be subject to the AMT. Taxpayers with incomes in the \$100,000 to \$500,000 income range will be the hardest hit: 90% of these taxpayers will be subject to the AMT in 2010.

Personal exemptions (22%), itemized deductions for state/local taxes (48%), and miscellaneous itemized deductions (20%) together account for over 90% of the preference items that are subject to tax under the AMT but not subject to tax under the regular income tax. As a result, over certain income ranges, taxpayers who claim itemized deductions for state/local taxes, miscellaneous deductions, and/or have large families are more likely to fall under the AMT than taxpayers who do not have these characteristics.

**Table 1** and **Table 2** show for 2003 and 2004, respectively, the percentage of taxpayers in each state that were subject to the AMT. Of all the states, Tennessee, South Dakota, Alaska, Alabama, and Mississippi had the smallest percentage of taxpayers subject to the AMT. In these five states, only four to five out of every 1,000 taxpayers paid the AMT in 2003. By 2004, the number of AMT taxpayers had increased to about six to seven out of every 1,000 taxpayers. These are states in which either many taxpayers have relatively low incomes, or state/local taxes that are deductible from the federal income tax are relatively low. As a result of the combination of these factors, taxpayers in these states tend not to itemize their deductions and hence, are less likely to be subject to the AMT than taxpayers in other states.<sup>2</sup>

On the other hand, New Jersey, New York, Connecticut, the District of Columbia, and California were the states with the largest percentage of taxpayers subject to the AMT. For instance, in New Jersey, about 43 out of every 1,000 taxpayers fell under the AMT in 2003. By 2004, about 55 taxpayers out of every 1,000 paid the AMT. In these states, many taxpayers have relatively high incomes and the state/local tax burden is also relatively high. The combination of these factors produces a larger number of itemizers and, consequently, a larger percentage of taxpayers being pushed into the AMT.

It should be noted that absent legislative change, whether a married taxpayer has itemized deductions for state/local taxes and/or miscellaneous deductions will become a less important factor in determining whether taxpayers are subject to the AMT. This will result because, if the AMT is not modified, then across a broad range of the income spectrum all married taxpayers will be subject to the AMT whether they itemize their deductions or not.

The negative effects of the AMT have been mitigated through temporary increases in the basic exemption for the AMT and temporary changes that allow taxpayers to use nonrefundable personal tax credits to reduce their AMT liabilities. The most recent increase in the basic AMT exemption occurred in May 2006 with the enactment of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). Under provisions of this act, the AMT exemption for 2006 was set at \$62,550 for joint returns and \$42,500 for unmarried taxpayers. In addition, this act allows taxpayers to temporarily use nonrefundable tax credits to offset AMT liability. The Joint Committee on Taxation

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<sup>2</sup> This relationship might change given the recent enactment of a temporary provision allowing itemized deductions for state/local sales taxes in lieu of income taxes. See CRS Report RL32781, *Federal Deductibility of State and Local Taxes*, by Steven Maguire.

estimates that these two changes will reduce federal revenues by almost \$34 billion. In 2007, the basic AMT exemption is scheduled to decrease to its prior law level of \$45,000 for joint returns (\$35,750 for unmarried taxpayers), and nonrefundable tax credits will not be allowed to offset AMT liability.

If these temporary patches to the AMT expire at the end of 2006, then in 2007, almost 20 million more taxpayers will be subject to the AMT than was the case in 2004. An increase of this magnitude will affect taxpayers in every state, regardless of whether taxpayers in that state itemize and deduct their state/local taxes and/or miscellaneous deductions from their federal tax returns.

For example, in 2004, approximately 17,000 taxpayers in Tennessee were subject to the AMT. Thus, Tennessee taxpayers accounted for only 0.54% of the total AMT returns filed in the country that year. However, if that percentage remains constant, and the temporary patches to the AMT expire, then by 2007 up to 128,000 taxpayers in Tennessee could be subject to the AMT.

**Table 3** shows the potential number of AMT returns by state in 2007 if the temporary patches to the AMT are allowed to expire. The calculations are an extrapolation based on the assumption that the ratio of AMT taxpayers in each state to total AMT taxpayers in the entire country will remain the same in 2007 as it was in 2004.

**Table 1. Number of Alternative Minimum Taxpayers by State Tax Year 2003**  
(Returns in thousands)

Rank	State	Number of returns	AMT returns	AMT returns as % of total	Rank	State	Number of returns	AMT returns	AMT returns as % of total
	<b>U.S.A.</b>	131,357	2,359	1.80%					
48	Alabama	1,884	10	0.52	30	Montana	434	5	1.04%
49	Alaska	343	2	0.49	21	Nebraska	803	10	1.26
35	Arizona	2,285	20	0.90	39	Nevada	1,044	8	0.79
38	Arkansas	1,122	9	0.79	20	New Hampshire	635	8	1.28
5	California	15,172	475	3.13	1	New Jersey	4,082	179	4.38
26	Colorado	2,079	23	1.11	36	New Mexico	814	7	0.87
3	Connecticut	1,654	61	3.68	2	New York	8,590	357	4.15
23	Delaware	388	5	1.18	17	North Carolina	3,681	53	1.45
4	District of Columbia	276	9	3.27	46	North Dakota	302	2	0.56
34	Florida	7,850	72	0.91	12	Ohio	5,444	97	1.78
16	Georgia	3,709	54	1.45	37	Oklahoma	1,461	12	0.84
25	Hawaii	591	7	1.11	10	Oregon	1,572	29	1.85
28	Idaho	578	6	1.07	19	Pennsylvania	5,772	79	1.37
18	Illinois	5,723	81	1.41	8	Rhode Island	498	11	2.13
41	Indiana	2,817	20	0.71	27	South Carolina	1,805	20	1.08
33	Iowa	1,325	13	0.95	50	South Dakota	357	2	0.43
22	Kansas	1,219	15	1.19	51	Tennessee	2,565	11	0.42
29	Kentucky	1,741	18	1.06	40	Texas	9,299	69	0.74
42	Louisiana	1,880	13	0.69	31	Utah	970	10	1.03
15	Maine	615	9	1.52	13	Vermont	302	5	1.61
7	Maryland	2,602	75	2.90	11	Virginia	3,432	61	1.79
6	Massachusetts	3,052	89	2.92	43	Washington	2,809	18	0.65
24	Michigan	4,546	52	1.14	45	West Virginia	744	5	0.62
9	Minnesota	2,384	46	1.92	14	Wisconsin	2,590	41	1.57
47	Mississippi	1,170	6	0.53	44	Wyoming	241	2	0.63
32	Missouri	2,564	26	1.02					

**Source:** Department of the Treasury. Internal Revenue Service.

**Table 2. Number of Alternative Minimum Taxpayers by State Tax Year 2004**  
(Returns in thousands)

Rank	State	Number of returns	AMT returns	AMT returns as % of total	Rank	State	Number of returns	AMT returns	AMT returns as % of total
	<b>U.S.A.</b>	133,092	3,146	2.4%					
47	Alabama	1,910	14	0.73	31	Montana	439	6	1.38%
48	Alaska	345	2	0.69	21	Nebraska	808	13	1.63
34	Arizona	2,372	30	1.30	37	Nevada	1,092	13	1.23
39	Arkansas	1,136	12	1.09	20	New Hampshire	643	11	1.74
5	California	15,327	606	3.95	1	New Jersey	4,107	228	5.54
26	Colorado	2,110	32	1.51	41	New Mexico	827	8	1.06
3	Connecticut	1,665	80	4.82	2	New York	8,625	437	5.06
22	Delaware	395	6	1.63	19	North Carolina	3,769	69	1.84
4	District of Columbia	277	11	4.23	46	North Dakota	305	2	0.77
27	Florida	8,173	118	1.45	12	Ohio	5,447	120	2.21
16	Georgia	3,782	73	1.93	40	Oklahoma	1,476	16	1.07
23	Hawaii	606	9	1.60	11	Oregon	1,604	37	2.30
29	Idaho	594	8	1.38	14	Pennsylvania	5,811	114	1.97
15	Illinois	5,762	112	1.94	8	Rhode Island	500	13	2.69
42	Indiana	2,854	29	1.01	28	South Carolina	1,844	26	1.41
35	Iowa	1,334	17	1.27	51	South Dakota	362	2	0.59
24	Kansas	1,229	19	1.56	49	Tennessee	2,606	17	0.67
32	Kentucky	1,757	23	1.35	36	Texas	9,431	118	1.25
43	Louisiana	1,869	18	0.97	30	Utah	996	13	1.38
18	Maine	618	11	1.88	17	Vermont	306	5	1.92
6	Maryland	2,635	102	3.90	9	Virginia	3,491	89	2.55
7	Massachusetts	3,061	116	3.79	38	Washington	2,860	35	1.23
25	Michigan	4,561	69	1.52	45	West Virginia	747	6	0.82
10	Minnesota	2,407	57	2.38	13	Wisconsin	2,621	51	1.98
47	Mississippi	1,165	7	0.67	44	Wyoming	243	2	0.86
33	Missouri	2,585	34	1.33					

**Source:** Department of the Treasury. Internal Revenue Service.

**Table 3. Potential AMT Returns by State in 2007**

(Returns in thousands)

State	AMT returns in 2004	Potential AMT returns in 2007	State	AMT returns in 2004	Potential AMT returns in 2007
<b>U.S.A.</b>	3,146	23,000			
Alabama	14	102	Montana	6	44
Alaska	2	17	Nebraska	13	96
Arizona	30	226	Nevada	13	98
Arkansas	12	90	New Hampshire	11	81
California	606	4,434	New Jersey	228	1,665
Colorado	32	234	New Mexico	8	64
Connecticut	80	587	New York	437	3,194
Delaware	6	47	North Carolina	69	509
District of Columbia	11	85	North Dakota	2	17
Florida	118	866	Ohio	120	881
Georgia	73	534	Oklahoma	16	116
Hawaii	9	71	Oregon	37	270
Idaho	8	60	Pennsylvania	114	837
Illinois	112	819	Rhode Island	13	98
Indiana	29	212	South Carolina	26	190
Iowa	17	124	South Dakota	2	15
Kansas	19	140	Tennessee	17	128
Kentucky	23	174	Texas	118	865
Louisiana	18	132	Utah	13	100
Maine	11	85	Vermont	5	43
Maryland	102	751	Virginia	89	651
Massachusetts	116	848	Washington	35	258
Michigan	69	507	West Virginia	6	45
Minnesota	57	420	Wisconsin	51	379
Mississippi	7	57	Wyoming	2	15
Missouri	34	253			

**Source:** Calculations by CRS assuming that the ratio of AMT taxpayers in each state to total AMT taxpayers in the entire country will remain the same in 2007 as it was in 2004.