



CRS Report for Congress

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 96% 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 2004, 3.1 million taxpayers were subject to the AMT. By 2005, some 4.1 million taxpayers were subject to the AMT. New Jersey, New York, Connecticut, the District of Columbia, and Maryland had the highest percentage of taxpayers subject to the AMT. South Dakota, Mississippi, Tennessee, Alaska, and Alabama had the lowest percentage of taxpayers subject to the AMT.

By 2007, absent legislative change, according to the Joint Committee on Taxation, some 22.2 million taxpayers will be subject to the AMT. At that time, whether a married taxpayer has itemized deductions for state/local taxes or miscellaneous deductions will become a much less important factor than it is at present in determining AMT coverage. 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The alternative minimum tax for individuals (AMT) was originally enacted to ensure that high-income taxpayers paid a fair share of the federal income tax.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.¹

Temporary increases in the AMT exemptions expired at the end of 2006. If legislative changes do not extend the expired changes, then the number of taxpayers subject to the AMT will rise from around 4.1 million in 2006 to 22.2 million in 2007. Further, by 2010, some 29 million taxpayers will be subject to the AMT.² Taxpayers with incomes in the \$100,000 to \$500,000 income range will be the hardest hit: 88% of these taxpayers will be subject to the AMT in 2010.

Itemized deductions for state/local taxes (62.7%), personal exemptions (22.4%), and miscellaneous itemized deductions (11.4%) together account for 96% of the preference items that are subject to tax under the AMT but not subject to tax under the regular income tax.³ 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 2004 and 2005, respectively, the percentage of taxpayers in each state that were subject to the AMT. Of all the states, South Dakota, Mississippi, Tennessee, Alaska, and Alabama had the smallest percentage of taxpayers subject to the AMT. In these five states, 1% of taxpayers were on the AMT in 2005. 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.⁴

On the other hand, New Jersey, New York, Connecticut, the District of Columbia, and Maryland were the states with the largest percentage of taxpayers subject to the AMT. For instance, in New Jersey, about 56 out of every 1,000 taxpayers fell under the AMT in 2004. By 2005, about 68 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

¹ See CRS Report RL30149, *The Alternative Minimum Tax for Individuals*, by Gregg Esenwein and Steven Maguire.

² U.S. Congress, Joint Committee on Taxation, "Present Law and Background Relating to the Alternative Minimum Tax," JCX-38-07, June 25, 2007.

³ JCT, June 25, 2007, p. 18.

⁴ 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.

spectrum all married taxpayers will be subject to the AMT whether they itemize their deductions or not.

The potentially expanding impact of the AMT has 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, P.L. 109-222). 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 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.

Because the temporary patches to the AMT expired at the end of 2006, in 2007 almost 18 million more taxpayers will be subject to the AMT than was the case in 2005.⁵ 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 2005, 25,415 taxpayers in Tennessee were subject to the AMT. Thus, Tennessee taxpayers accounted for only 0.62% of the total AMT returns filed in the United States that year. However, if that percentage remains constant, and the temporary patches to the AMT expire, then by 2007 up to 138,609 (0.62% times 22.184 million) 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. Two estimates are provided in **Table 3**. The CRS 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 2005. In contrast, the Citizens for Tax Justice (CTJ) use a microsimulation model to predict how many taxpayers in each state would be subject to the AMT.⁶ Both methodologies make assumptions that could be challenged, but both still provide reasonable estimates of the potential impact of the AMT in 2007 absent legislative changes.

⁵ JCT, June 25, 2007.

⁶ Citizens for Tax Justice, "Who Pays the Individual AMT: State-by-State Estimates for 2006," March 22, 2006.

Table 1. 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
	U.S.A.	133,092	3,146	2.36%					
46	Alabama	1,910	14	0.73%	30	Montana	439	6	1.37%
50	Alaska	345	2	0.58%	20	Nebraska	808	13	1.61%
35	Arizona	2,372	30	1.26%	38	Nevada	1,092	13	1.19%
37	Arkansas	1,136	12	1.06%	21	New Hampshire	643	11	1.71%
4	California	15,327	606	3.95%	1	New Jersey	4,107	228	5.55%
31	Colorado	2,110	32	1.52%	39	New Mexico	827	8	0.97%
3	Connecticut	1,665	80	4.80%	2	New York	8,625	437	5.07%
24	Delaware	395	6	1.52%	14	North Carolina	3,769	69	1.83%
5	District of Columbia	277	11	3.97%	48	North Dakota	305	2	0.66%
26	Florida	8,173	118	1.44%	12	Ohio	5,447	120	2.20%
13	Georgia	3,782	73	1.93%	41	Oklahoma	1,476	16	1.08%
23	Hawaii	606	9	1.49%	10	Oregon	1,604	37	2.31%
29	Idaho	594	8	1.35%	16	Pennsylvania	5,811	114	1.96%
15	Illinois	5,762	112	1.94%	8	Rhode Island	500	13	2.60%
43	Indiana	2,854	29	1.02%	25	South Carolina	1,844	26	1.41%
36	Iowa	1,334	17	1.27%	51	South Dakota	362	2	0.55%
22	Kansas	1,229	19	1.55%	49	Tennessee	2,606	17	0.65%
32	Kentucky	1,757	23	1.31%	33	Texas	9,431	118	1.25%
42	Louisiana	1,869	18	0.96%	28	Utah	996	13	1.31%
19	Maine	618	11	1.78%	18	Vermont	306	5	1.63%
6	Maryland	2,635	102	3.87%	9	Virginia	3,491	89	2.55%
7	Massachusetts	3,061	116	3.79%	40	Washington	2,860	35	1.22%
27	Michigan	4,561	69	1.51%	44	West Virginia	747	6	0.80%
11	Minnesota	2,407	57	2.37%	17	Wisconsin	2,621	51	1.95%
47	Mississippi	1,165	7	0.60%	45	Wyoming	243	2	0.82%
34	Missouri	2,585	34	1.32%					

Source: Department of the Treasury. Internal Revenue Service.

Table 2. Number of Alternative Minimum Taxpayers by State Tax Year 2005

(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
	U.S.A.	135,258	4,068	3.01%					
47	Alabama	1,956	21	1.07%	32	Montana	448	8	1.79%
48	Alaska	347	3	0.86%	25	Nebraska	816	17	2.08%
27	Arizona	2,474	49	1.98%	38	Nevada	1,150	18	1.57%
39	Arkansas	1,154	17	1.47%	20	New Hampshire	650	15	2.31%
6	California	15,573	757	4.86%	1	New Jersey	4,153	283	6.81%
23	Colorado	2,160	46	2.13%	42	New Mexico	843	11	1.30%
3	Connecticut	1,682	99	5.89%	2	New York	8,716	523	6.00%
21	Delaware	403	9	2.23%	18	North Carolina	3,880	93	2.40%
4	District of Columbia	282	15	5.32%	46	North Dakota	307	3	0.98%
28	Florida	8,411	161	1.91%	12	Ohio	5,460	152	2.78%
15	Georgia	3,918	102	2.60%	40	Oklahoma	1,496	21	1.40%
22	Hawaii	621	14	2.25%	11	Oregon	1,645	48	2.92%
30	Idaho	614	12	1.95%	14	Pennsylvania	5,867	154	2.62%
13	Illinois	5,836	153	2.62%	9	Rhode Island	502	17	3.39%
41	Indiana	2,884	41	1.42%	31	South Carolina	1,885	35	1.86%
37	Iowa	1,347	22	1.63%	51	South Dakota	367	3	0.82%
24	Kansas	1,242	26	2.09%	49	Tennessee	2,658	25	0.94%
35	Kentucky	1,780	31	1.74%	34	Texas	9,728	172	1.77%
43	Louisiana	1,770	22	1.24%	29	Utah	1,031	19	1.84%
19	Maine	621	15	2.42%	16	Vermont	310	8	2.58%
5	Maryland	2,674	134	5.01%	8	Virginia	3,541	124	3.50%
7	Massachusetts	3,083	146	4.74%	36	Washington	2,932	50	1.71%
26	Michigan	4,563	93	2.04%	45	West Virginia	754	9	1.19%
10	Minnesota	2,446	74	3.03%	17	Wisconsin	2,656	65	2.45%
50	Mississippi	1,170	11	0.94%	44	Wyoming	248	3	1.21%
33	Missouri	2,611	47	1.80%					

Source: Department of the Treasury. Internal Revenue Service.

Table 3. Potential AMT Returns by State in 2007

(Returns in thousands)

State	AMT returns in 2005	Potential AMT returns in 2007 (CRS)	Potential AMT returns in 2007 (CTJ)	State	AMT returns in 2005	Potential AMT returns in 2007 (CRS)	Potential AMT returns in 2007 (CTJ)
U.S.A.	4,068	22,184	22,493				
Alabama	21	112	248	Montana	8	44	51
Alaska	3	18	54	Nebraska	17	92	110
Arizona	49	266	335	Nevada	18	99	146
Arkansas	17	91	136	New Hampshire	15	83	113
California	757	4,129	3,104	New Jersey	283	1,544	1,069
Colorado	46	251	348	New Mexico	11	62	96
Connecticut	99	541	428	New York	523	2,850	1,689
Delaware	9	50	62	North Carolina	93	509	598
District of Columbia	15	80	49	North Dakota	3	18	38
Florida	161	880	1,052	Ohio	152	827	854
Georgia	102	556	615	Oklahoma	21	117	175
Hawaii	14	74	97	Oregon	48	264	255
Idaho	12	63	89	Pennsylvania	154	837	1,059
Illinois	153	836	993	Rhode Island	17	91	88
Indiana	41	223	419	South Carolina	35	193	268
Iowa	22	121	192	South Dakota	3	17	42
Kansas	26	140	191	Tennessee	25	139	334
Kentucky	31	168	243	Texas	172	936	1,401
Louisiana	22	122	178	Utah	19	106	150
Maine	15	80	82	Vermont	8	43	48
Maryland	134	732	681	Virginia	124	674	682
Massachusetts	146	796	751	Washington	50	273	451
Michigan	93	505	830	West Virginia	9	47	86
Minnesota	74	406	479	Wisconsin	65	353	502
Mississippi	11	60	107	Wyoming	3	17	33
Missouri	47	256	392				

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 2005. The Citizens for Tax Justice (CTJ) estimates are from Citizens for Tax Justice, "Who Pays the Individual AMT: State-by-State Estimates for 2006," March 22, 2006. Projected Number of AMT taxpayers in the U.S. in 2007 are CRS calculations based on data from the Joint Committee on Taxation.