



CRS Report for Congress

The Alternative Minimum Tax for Individuals: Legislative Initiatives in the 110th Congress

Gregg A. Esenwein
Specialist in Public Finance
Government and Finance Division

Steven Maguire
Specialist in Public Finance
Government and Finance Division

Summary

The alternative minimum tax (AMT) for individuals was originally enacted to ensure that all taxpayers, especially high-income taxpayers, pay at least a minimum amount of federal taxes. However, the AMT is not indexed for inflation, and this factor, combined with the recent reductions in the regular income tax, has greatly expanded the potential impact of the AMT.

Temporary provisions intended to mitigate the effects of the AMT will expire at the end of 2006. As a result, the number of taxpayers subject to the AMT will increase from 3.5 million in 2006 to 23 million in 2007. The Congressional Budget Office estimates that extending AMT tax relief would reduce federal revenue by \$282 billion over the period FY2007 through FY2011.

On October 30, 2007, Ways and Means Committee Chairman Charles Rangel introduced H.R. 3996, legislation that, among other things, would set the 2007 AMT exemption levels at \$66,250 for joint returns and \$44,350 for single returns. In addition, this bill would allow nonrefundable personal tax credits to offset AMT tax liability for 2007. The Ways and Means Committee approved H.R. 3996 on November 1 and the full House approved the bill on November 9. This one-year AMT patch is estimated to cost \$50.59 billion. This report will be updated as legislative action warrants.

The alternative minimum tax (AMT) for individuals was originally enacted to ensure that all taxpayers, especially high-income taxpayers, pay at least a minimum amount of federal taxes.¹ It was designed so that individuals could not take unfair advantage of the various preferences and incentives under the regular income tax to substantially reduce

¹ There is also a corporate minimum tax, but it is not addressed in this report.

their regular income tax liability below what was considered appropriate for their income level. The AMT functions as a parallel tax system to the regular income tax. Taxpayers calculate their regular income tax and then calculate their AMT. If their AMT liability is larger than their regular income tax liability, then they pay the AMT.

However, absent legislative action, there will be a significant increase in the number of middle- to upper-middle-income taxpayers affected by the AMT in the near future. In 2006, about 4.2 million taxpayers were subject to the AMT, but by 2007, up to 23 million taxpayers could be subject to the AMT.²

There are two main reasons for the increase in the number of taxpayers affected by the AMT. First, the regular income tax is indexed for inflation, but the AMT is not. Over time this has produced a reduction in the differences between regular income tax liabilities and AMT liabilities at any given nominal income level, differences that will continue to shrink in the absence of AMT indexation. The second reason is that the 2001 and 2003 reductions in the regular income tax have further narrowed the differences between regular and AMT tax liabilities. The combination of these two factors means that, absent legislative changes, there will be significant growth in the number of taxpayers affected by the AMT.³

Since 1998, the effects of the AMT have been mitigated through temporary provisions allowing certain personal tax credits to offset AMT liability and temporary increases in the basic exemption for the AMT. The Tax and Trade Relief Extension Act of 1998, allowed taxpayers to use nonrefundable personal tax credits in full against their regular income tax even though the use of the credits might reduce a taxpayers regular income tax liability below their AMT liability.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) temporarily increased the AMT exemption amounts from \$45,000 to \$49,000 for joint returns and from \$33,750 to \$35,750 for unmarried individuals with the changes effective for tax years between 2001 and 2004.

The Job Creation and Worker Assistance Act of 2002 extended the temporary provisions, first enacted in 1998 and then extended in 1999, that allowed individuals to use all personal tax credits against both their regular and AMT tax liabilities. This change was effective through December 31, 2003.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) increased the basic AMT exemption amount to \$58,000 for joint returns and to \$40,250 for unmarried taxpayers. These increases were in effect for tax years 2003 and 2004.

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

³ For more detailed information on which taxpayers will be affected by the AMT, see CRS Report RS21817, *The Alternative Minimum Tax (AMT): Income Entry Points and "Take Back" Effects*, by Gregg Esenwein; CRS Report RS22200, *The Potential Distribution Effects of the Alternative Minimum Tax*, by Gregg Esenwein and Steven Maguire; and CRS Report RS22083, *Alternative Minimum Taxpayers By State: 2003, 2004, and Projections for 2007*, by Gregg Esenwein and Steven Maguire.

JGTRRA also established that the new maximum tax rate of 15% applicable to capital gains and dividend income under the regular income tax would also apply to the taxation of capital gains and dividend income under the AMT.

The Working Families Tax Relief Act of 2004 (WFTRA) extended through 2005 JGTRRA's increase in the basic AMT exemption amounts. WFTRA also extended the provision allowing nonrefundable personal tax credits to offset both regular and AMT tax liability in full for taxable years 2004 and 2005.

The American Jobs Creation Act of 2004 made several changes to the AMT. It coordinated farmer and fisherman income averaging with the AMT so that the use of income averaging did not push taxpayers into the AMT. It repealed the 90% limitation on the use of the AMT foreign tax credit. The act also allowed the credits for alcohol used as a fuel and electricity produced by renewable resources to be used in full against the AMT.

Legislative Action in the 109th Congress

In May 2006, Congress approved the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) that included a one-year extension (through 2006) of both the AMT's personal-credit and increased-exemption provisions. For 2005, the exemption amount was \$58,000 for joint returns and \$40,250 for unmarried taxpayers. TIPRA increased the 2006 AMT exemption to \$62,550 for joint returns and \$42,500 for unmarried taxpayers. According to estimates by the Joint Committee on Taxation, the one-year cost of these AMT provisions would be \$33.9 billion.

In December 2006, Congress passed the Tax Relief and Health Care Act of 2006. This act included a provision making the AMT tax credit refundable. Under the act, taxpayers can claim an AMT refundable credit amount that is the greater of (1) the lesser of \$5,000 or the unused minimum credit, or (2) 20% of the unused minimum credit. The unused credit is the credit attributable to tax years prior to the previous three years. The AMT refundable credit is reduced for taxpayers with adjusted gross incomes in excess of certain threshold amounts. (For joint returns in 2007, the threshold is \$234,600). This provision applies to tax years beginning before January 1, 2013.

Absent legislation the basic AMT exemption is scheduled to decrease to \$45,000 for joint returns and \$35,750 for unmarried taxpayers in 2007. In addition, in 2007, several personal tax credits will not be allowed against the AMT.

Legislative Action in the 110th Congress

The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 (H.R. 2206) was enacted on May 25, 2007, and allowed the tax credits for the work opportunity credit and the credit for taxes paid with respect to employee cash tips to be used in full against both the corporate and individual alternative minimum taxes.

On October 30, 2007, Ways and Means Committee Chairman Charles Rangel introduced the **Temporary Tax Relief Act of 2007** (H.R. 3996). Among other things,

this bill would set the 2007 AMT exemption levels at \$66,250 for joint returns and \$44,350 for single returns. It would also allow nonrefundable personal tax credits to offset AMT tax liability for 2007. Finally, the bill would increase the amount of the refundable AMT tax credit and remove the income phaseouts for the credit. The Ways and Means Committee approved H.R. 3996 on November 1 and the House approved the bill on November 9. This one-year AMT patch is estimated to cost \$50.59 billion.

Table 1 summarizes additional legislative proposals affecting the AMT introduced in the 110th Congress.

Table 1. AMT Legislation in the 110th Congress

Bill	Sponsor	Effect on AMT
S. 55 Jan. 4, 2007	Sen. Max Baucus Sen. Chuck Grassley	Repeals the AMT effective for tax years after 2006.
S. 102 Jan. 4, 2007	Sen. John Kerry	Increases the basic AMT exemption and allows personal tax credits to offset AMT liability. Offsets part of the cost of these changes by repealing, in 2009 and 2010, the lower tax rates on dividends and capital gains income.
S. 590 Feb. 14, 2007	Sen. Gordon Smith	Allows the investment tax credit for solar energy property and qualified fuel cell property against the AMT.
S. 614 Feb. 15, 2007	Sen. Charles Schumer	Increases the basic AMT exemption for tax years 2007 and 2008. Permits personal tax credits to offset AMT liabilities.
S. 734 Mar. 1, 2007	Sen. Arlen Specter	Reduces the AMT tax rate to 24%.
S. 1040 Mar. 29, 2007	Sen. Richard Shelby	Among other things, this bill repeals the AMT.
S. 1111 Apr. 16, 2007	Sen. Ron Wyden	Among other things, this bill repeals the AMT.
S. 14 Apr. 17, 2007	Sen. Jon Kyl	Repeals the AMT effective in 2007.
S. 1405 May 16, 2007	Sen. Sam Brownback	Repeals the individual AMT effective in 2008.
S. 1851 July 23, 2007	Sen. Jeff Sessions	Indexes the AMT for inflation and allows personal exemptions under the AMT.
S. 1855 July 23, 2007	Sen. Chuck Grassley	Provides relief from penalty for failure to pay estimated taxes attributable to the AMT.
S. 1875 July 25, 2007	Sen. Jim DeMint	Repeals the AMT effective in 2007.
H.R. 370 Jan. 10, 2007	Rep. Geoff Davis	Allows certain coal to liquid fuel tax credits to be applied against the AMT.
H.R. 550 Jan. 18, 2007	Rep. Michael McNulty	Allows the investment tax credit for solar energy property and qualified fuel cell property against the AMT.

Bill	Sponsor	Effect on AMT
H.R. 1112 Feb. 16, 2007	Rep. Thomas Reynolds	Increases the basic AMT exemption to \$66,400 for joint returns and \$45,100 for unmarried taxpayers. Allows personal tax credits to offset AMT liabilities in full.
H.R. 1366 Mar. 7, 2007	Rep. Phil English	Repeals the AMT starting in 2007.
H.R. 1591 Mar. 20, 2007	Rep. David Obey	Makes permanent the allowance for the work opportunity tax credit and the credit for taxes paid with respect to employee tips to offset AMT liability. Passed by the House and the Senate, but was vetoed by President Bush on May 1, 2007.
H.R. 1869 Apr. 17, 2007	Rep. Nydia Velazques	Repeals the AMT starting in 2008.
H.R. 1923 Apr. 18, 2007	Rep. Kevin McCarthy	Increases and indexes the basic exemption for the AMT. Increases the point at which the basic exemption is phased-out.
H.R. 1942 Apr. 19, 2007	Rep. Scott Garrett	Allows deductions for state and local taxes against AMT. Indexes the basic AMT exemption.
H.R. 2253 May 9, 2007	Rep. Edward Royce	Reduces the AMT tax rate to 24%.
H.R. 2318 May 15, 2007	Rep. Robert Andrews	Allows state and local property taxes to be deducted from the AMT tax base.
H.R. 2691 June 12, 2007	Rep. Timothy Walz	Allows the tax credit for electricity produced from wind facilities against the AMT.
H.R. 2748 June 15, 2007	Rep. Rodney Frelinghuysen	Allows the alternative motor vehicle tax credit against the AMT.
H.R. 2776 June 27, 2007	Rep. Charles Rangel	Allows certain energy tax credits against the AMT.
H.R. 2902 June 28, 2007	Rep. Thomas Allen	For 2007 and 2008, increases the AMT exemption and allows all personal tax credits against the AMT .
H.R. 2983 July 10, 2007	Rep. Anthony Weiner	Eliminates the AMT for taxpayers with adjusted gross incomes (AGIs) under \$100,000 for unmarried taxpayers and \$200,000 for married taxpayers.
H.R. 3486 Sept. 6, 2007	Rep. Brad Ellsworth	Creates new mine safety credit, revises the credit for mine rescue team training and allows these credits against the AMT.
H.R. 3726 Oct. 2, 2007	Rep. Baron Hill	Allows real property tax on principal residence to be deducted by non-itemizers and allows this deduction against the AMT.
H.R. 3590 Sept. 19, 2007	Rep. Nick Lampson	Extends the AMT tax relief provisions through 2007.
H.R. 3818 Oct. 10, 2007	Rep. Paul Ryan	Repeals the AMT. Allows taxpayers to pay their regular income tax or pay taxes under a new simplified tax system.
H.R. 3861 Oct. 16, 2007	Rep. Chris Van Hollen	Increases the AMT refundable credit amount for individuals with unused credits for prior years minimum tax liability.
H.R. 3953 Oct. 24, 2007	Rep. Tim Mahoney	Allows a deduction for property taxes in the determination of AMT taxable income.

Bill	Sponsor	Effect on AMT
H.R. 3970 Oct. 25, 2007	Rep. Charles Rangel	Among other things, for 2007, this bill would provide for increased/indexed AMT exemption amounts and would allow nonrefundable personal credits to offset AMT liabilities. For years after 2007, the AMT would be repealed as part of a fundamental restructuring of the individual and corporate tax systems.
H.R. 3996 Oct. 30, 2007	Rep. Charles Rangel	Among other things, this bill allows nonrefundable personal tax credits to offset AMT tax liability and increases the AMT exemption amounts to \$66,250 for joint returns and \$44,350 for single returns. These changes would be effective for one year, 2007.
S. 2293 Nov. 1, 2007	Sen. Trent Lott	Among other things, this bill would repeal the individual AMT.
S. 2318 Nov. 7, 2007	Sen. John Ensign	Among other things, this bill would repeal the individual AMT.
S. 2389 Nov. 16, 2007	Sen. John Kerry	This bill would increase the amount of the AMT refundable credit from 20% to 50% and remove the income phaseouts for the credit.
S. 2416 Dec. 5, 2007	Sen. Jim DeMint	Repeals the current AMT and replaces it with an alternative tax that taxpayers have the option to pay instead of their regular income tax.
S.Con.Res. 21 May 17, 2007	n/a	House and Senate adopted the FY2008 budget resolution. The resolution calls for a one-year patch for the AMT.

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Administration's Proposals

In its FY2005 budget proposal, the Administration proposed a one-year extension for both the increased AMT exemption levels and the provision allowing personal credits to offset AMT tax liability. Both of these proposals were ultimately enacted as part of the Working Families Tax Relief Act of 2004.

In its FY2006 budget proposal, the Administration did not address the AMT issue. Subsequent statements by the Administration indicated that the AMT issue was to be addressed by the tax reform panel appointed by the Administration. In November 2005, the tax reform panel recommended that the AMT be repealed.

The Administration's FY2007 budget proposal included a provision to extend, through 2006, the higher AMT exemption levels and a provision allowing nonrefundable personal credits to apply to the AMT.

The Administration's FY2008 budget proposal includes a one-year patch for the AMT. The Administration's proposal would increase the basic AMT exemption to \$65,350 for joint returns and to \$43,900 for unmarried taxpayers. It would also allow personal tax credits to offset AMT liability in full. These changes would be effective for 2007.