



CRS Report for Congress

Alternative Minimum Taxpayers by State: 2005, 2006, and Projections for 2008

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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 2006, 4.1 million taxpayers were subject to the AMT. New Jersey, Connecticut, New York, the District of Columbia, and Maryland had the highest percentage of taxpayers subject to the AMT. South Dakota, Tennessee, Alaska, Mississippi, and North Dakota had the lowest percentage of taxpayers subject to the AMT.

In 2008, absent legislative change, according to the Joint Committee on Taxation, some 25.7 million taxpayers will be affected by 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 because personal exemptions are not allowed against 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The alternative minimum tax for individuals (AMT) was originally enacted to ensure that high-income taxpayers paid a fair share of the federal income tax.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

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

Temporary increases in the AMT exemptions expired at the end of 2007. If legislative changes do not extend the expired changes, then the number of taxpayers subject to the AMT will rise from around 5 million in 2007 to 24.2 million in 2008. Further, by 2010, some 31 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 2005 and 2006, respectively, the percentage of taxpayers in each state that were subject to the AMT. Of all the states, South Dakota, Tennessee, Alaska, Mississippi, and North Dakota had the smallest percentage of taxpayers subject to the AMT. In these five states, roughly 1% of taxpayers were on the AMT in 2006. 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, Connecticut, New York, 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 65 out of every 1,000 taxpayers fell under the AMT in 2006. 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 captured by the AMT.

Note that absent legislative change (a patch), 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 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

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 For more on the deductibility of state and local taxes, see CRS Report RL32781, *Federal Deductibility of State and Local Taxes*, by Steven Maguire.

increase in the basic AMT exemption occurred in December 2007 with the enactment of the Tax Increase Prevention Act of 2007 (TIPA, P.L. 110-166). Under provisions of this act, the AMT exemption for 2007 was set at \$66,250 for joint returns and \$44,350 for unmarried taxpayers. In addition, this act allows taxpayers to temporarily use nonrefundable tax credits to offset AMT liability. In 2008, 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 2007, in 2008 roughly 21 million more taxpayers will likely be subject to the AMT.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 2006, 27,217 taxpayers in Tennessee were subject to the AMT. Thus, Tennessee taxpayers accounted for only 0.66% 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 in 2008 up to 159,000 (0.66% times 24.156 million) taxpayers in Tennessee could be subject to the AMT.

Table 3 shows the potential number of AMT returns by state in 2008 if the temporary patches to the AMT are not extended. 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 2008 as it was in 2006. The methodology makes assumptions that could be challenged, but still provides a reasonable estimate of the potential impact of the AMT in 2008 absent legislative changes. The House Ways and Means Committee has released projections of the number of AMT taxpayers by congressional district. These projections can be found on the committee's website.⁶

The Joint Committee on Taxation estimates that the one-year AMT patch for 2008 would reduce federal revenues by almost \$61.5 billion over 10 years.⁷

⁵ JCT, June 25, 2007.

⁶ The congressional district projections for number of AMT filers in 2008 are at the following website: [<http://waysandmeans.house.gov/MoreInfo.asp?section=46>], visited July 15, 2008.

⁷ U.S. Congress, Joint Committee on Taxation, "Estimated Revenue Effects of H.R. 6275, the 'Alternative Minimum Tax Relief Act of 2008,' Scheduled for Markup by the Committee on Ways and Means on June 18, 2008," JCX-51-08, June 17, 2008.

Table 1. 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, available at [<http://www.irs.ustreas.gov/pub/irs-soi/05in54cm.xls>], visited July 15, 2008.

Table 2. Number of Alternative Minimum Taxpayers by State, Tax Year 2006

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.	139,230,752	4,117,686	2.96%					
45	Alabama	2,028,820	23,864	1.18%	33	Montana	465,929	8,442	1.81%
49	Alaska	341,329	3,469	1.02%	26	Nebraska	833,432	16,896	2.03%
28	Arizona	2,596,639	51,028	1.97%	40	Nevada	1,210,794	18,198	1.50%
43	Arkansas	1,184,565	16,828	1.42%	20	New Hampshire	660,961	14,917	2.26%
6	California	15,987,519	735,476	4.60%	1	New Jersey	4,229,622	273,589	6.47%
18	Colorado	2,228,867	52,903	2.37%	44	New Mexico	887,176	11,833	1.33%
2	Connecticut	1,714,027	96,823	5.65%	3	New York	8,964,337	493,391	5.50%
19	Delaware	412,049	9,628	2.34%	17	North Carolina	4,005,613	98,871	2.47%
4	District of Columbia	287,723	15,017	5.22%	47	North Dakota	314,622	3,651	1.16%
29	Florida	8,656,007	168,866	1.95%	14	Ohio	5,520,709	138,775	2.51%
15	Georgia	4,075,882	102,159	2.51%	39	Oklahoma	1,544,498	23,694	1.53%
24	Hawaii	638,212	13,428	2.10%	11	Oregon	1,695,185	48,753	2.88%
27	Idaho	641,026	12,623	1.97%	13	Pennsylvania	6,040,716	152,705	2.53%
12	Illinois	5,979,694	160,305	2.68%	9	Rhode Island	516,906	15,705	3.04%
41	Indiana	2,969,013	43,228	1.46%	30	South Carolina	1,948,517	37,513	1.93%
37	Iowa	1,378,083	22,905	1.66%	51	South Dakota	377,808	3,640	0.96%
23	Kansas	1,289,274	27,609	2.14%	50	Tennessee	2,742,268	27,127	0.99%
38	Kentucky	1,822,852	28,172	1.55%	34	Texas	10,090,061	180,948	1.79%
36	Louisiana	1,894,724	32,537	1.72%	25	Utah	1,075,222	21,922	2.04%
22	Maine	633,971	14,004	2.21%	16	Vermont	319,131	7,933	2.49%
5	Maryland	2,717,418	127,303	4.68%	8	Virginia	3,618,883	127,929	3.54%
7	Massachusetts	3,144,359	143,615	4.57%	32	Washington	3,017,975	54,697	1.81%
31	Michigan	4,655,310	89,131	1.91%	46	West Virginia	770,261	9,056	1.18%
10	Minnesota	2,559,718	74,282	2.90%	21	Wisconsin	2,737,590	61,727	2.25%
48	Mississippi	1,234,286	13,931	1.13%	42	Wyoming	257,852	3,703	1.44%
35	Missouri	2,720,684	48,385	1.78%					

Source: Department of the Treasury. Internal Revenue Service, available at [<http://www.irs.ustreas.gov/pub/irs-soi/06in54cm.xls>], visited July 15, 2008.

Table 3. Potential AMT Returns by State, Tax Year 2008

State	AMT returns in 2006	Potential AMT returns in 2008 (CRS)	State	AMT returns in 2006	Potential AMT returns in 2008 (CRS)
U.S.A.	4,117,686	24,156,000			
Alabama	23,864	139,996	Montana	8,442	49,524
Alaska	3,469	20,351	Nebraska	16,896	99,119
Arizona	51,028	299,351	Nevada	18,198	106,757
Arkansas	16,828	98,720	New Hampshire	14,917	87,509
California	735,476	4,314,598	New Jersey	273,589	1,604,983
Colorado	52,903	310,350	New Mexico	11,833	69,417
Connecticut	96,823	568,003	New York	493,391	2,894,430
Delaware	9,628	56,482	North Carolina	98,871	580,017
District of Columbia	15,017	88,096	North Dakota	3,651	21,418
Florida	168,866	990,636	Ohio	138,775	814,110
Georgia	102,159	599,306	Oklahoma	23,694	138,999
Hawaii	13,428	78,774	Oregon	48,753	286,005
Idaho	12,623	74,052	Pennsylvania	152,705	895,829
Illinois	160,305	940,414	Rhode Island	15,705	92,132
Indiana	43,228	253,593	South Carolina	37,513	220,066
Iowa	22,905	134,370	South Dakota	3,640	21,354
Kansas	27,609	161,965	Tennessee	27,127	159,138
Kentucky	28,172	165,268	Texas	180,948	1,061,514
Louisiana	32,537	190,875	Utah	21,922	128,603
Maine	14,004	82,153	Vermont	7,933	46,538
Maryland	127,303	746,811	Virginia	127,929	750,483
Massachusetts	143,615	842,503	Washington	54,697	320,875
Michigan	89,131	522,878	West Virginia	9,056	53,126
Minnesota	74,282	435,768	Wisconsin	61,727	362,115
Mississippi	13,931	81,725	Wyoming	3,703	21,723
Missouri	48,385	283,846			

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 2008 as it was in 2006. Projected Number of AMT taxpayers in the U.S. in 2008 are based on data from U.S. Congress, Joint Committee on Taxation, "Present Law and Background Relating to the Alternative Minimum Tax," JCX-38-07, June 25, 2007.