Committee On Finance

Max Baucus, Ranking Member

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Baucus Reveals Some States Hit Harder By AMT
Senator Continues Push to Repeal AMT

(WASHINGTON, D.C.) Last month, U.S. Senator Max Baucus offered a bill (S. 1103) repealing the individual Alternative Minimum Tax, or the AMT. Baucus was joined by Chairman Chuck Grassley (R-IA), Senator Ron Wyden (D-OR), and Senator Jon Kyl (R-AZ).

A short statement from Senator Baucus and background information follow, including a state-by-state analysis showing that the AMT discriminates by state residence, mainly because taxpayers must add back any state and local taxes allowed under the regular tax. State and local taxes are one of the top reasons most taxpayers end up being socked by the AMT:

"As the Committee heard from our National Taxpayer Advocate, the AMT results in higher taxes simply because of a taxpayers' place of residence. The AMT punishes taxpayers who choose to have children and duly pay their state and local taxes. With the new state sales tax deduction, I am sure we will have more taxpayers wondering why this great new deduction gets clawed back by the Darth Vader of the tax code, the AMT. Already, 5,000 Montanans are subject to this higher tax and if Congress doesn't act soon, that number will be multiplied several times over.

"The AMT is a speeding freight train waiting to collide with millions of Americans' checkbooks. Thirty-five million American taxpayers will be hit by this unfair tax as soon as 2010, 37 percent of which will make less than $100,000. We need to act now to repeal this legislation to stop the AMT dead in its tracks and prevent it from crashing into millions of middle income households."

Background on the Individual Alternative Minimum Tax (AMT)

- Originally created in 1969 to hit 155 wealthy taxpayers who Congress discovered paid no taxes.
- If Congress doesn't act, by 2010, the AMT will affect almost 30 million taxpayers, which will be 20% of all returns (JCT estimate). By 2015, Treasury estimates that 45% of all taxpayers, or 51.3 million taxpayers, will be subject to the AMT.
- According to the experts at the Tax Policy Center, by 2010, the AMT will hit 93% of households with income between $100,000 and $500,000. The AMT will creep into

the middle class, affecting 37% of households with income between $50,000 and $75,000 and 73% of households with income between $75,000 and $100,000 (compared to less than 3 percent for each group in 2002).

- The IRS's National Taxpayer Advocate has identified the AMT as the most serious problem faced by taxpayers and has called for repeal. The IRS has estimated that taxpayers spent an average of 63 hours to calculate their AMT liability.
- The Treasury Department has estimated that the AMT will soon (2012) bring in more revenue than the regular income tax (making repeal of the regular tax less expensive).
- CRS estimates that in 2006, the family-unfriendly AMT will hit middle-income families earning $63,000 with three children. That is because families must add back personal exemptions and the standard deduction (or if they itemize state and local income taxes). The AMT exemption amount does not increase with family size, unlike the personal exemptions in the regular tax. According to the Tax Policy Center, state and local taxes, followed by personal exemptions, are the two major reasons most taxpayers end up on the AMT.
- Further, the AMT exemption amount has not been indexed for inflation, so many more families are hit by the tax each year.

Full Repeal is estimated to cost more than $600 billion over 10 years (JCT). Other options include allowing personal exemptions, the standard deduction, the deduction for state and local income taxes, or indexing the exemption amount.

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