

CRS Report for Congress

Received through the CRS Web

Alternative Minimum Taxpayers By State

Gregg Esenwein
Specialist in Public Finance
Government and Finance Division

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, and/or have large families are more likely to fall under the AMT than taxpayers who do not have these characteristics.

In 2003, 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.

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 AMT coverage. 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.

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The alternative minimum tax for individuals (AMT) was originally enacted to ensure that high-income taxpayers paid a fair share of the federal income tax.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 are scheduled to expire at the end of 2005. If this occurs, then the number of taxpayers subject to the AMT will rise from around 2.3 million in 2003 to over 19 million in 2006. Absent legislation, by 2010, some 31 million taxpayers will be subject to the AMT. Taxpayers with incomes in the \$100,000

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

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.

The following table shows for 2003 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. These are states where either many taxpayers have relatively low incomes and/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.²

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. 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.

For example, if the AMT is not changed, then in 2006, all married taxpayers filing joint returns with two children will be subject to the AMT when their incomes exceed \$67,500. It would not matter whether they itemized deductions or took the standard deduction; they would pay the AMT. The income entry point for the AMT gets smaller as family size increases. For instance, in 2006, all married couples with four children whose incomes exceed \$58,500 will be subject to the AMT rather than the regular income tax regardless of whether they itemize or take the standard deduction.³

² 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.

³ See CRS Report RS21817, *The Alternative Minimum Tax (AMT): Income Entry Points and "Take Back" Effects*, by Gregg Esenwein.

**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
	U.S.A.	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	D.C.	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. [<http://www.irs.ustreas.gov/taxstats/article/0,,id=103106,00.html>].