



## Hypothetical Examples of Families That Are in the AMT Patch

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Given the attention that the Alternative Minimum Tax (AMT) is garnering right now in the media and on Capitol Hill, we provide here some hypothetical examples of families whose tax liabilities would change if the AMT were "patched," i.e., if the exemption amount were increased for 2007. These hypothetical people would also be affected by the possible refund delay this spring should the AMT patch be enacted later and made retroactive. (Note: The hypothetical families selected here are not necessarily representative of the overall distribution of AMT payers. For more information on the overall impact of AMT, see our previous work on the issue, [available here](#).)

In the examples presented below, we assume that the AMT exemption amount under a patch for 2007 would be \$66,250 for married couples. We assume in each case that the family earns all its income in wages and salaries and that it itemizes deductions. Among its deductions, we assume that the deduction for state-local taxes paid is 5 percent of the family's income in a low-tax state but 10 percent of income in a high-tax state, that the mortgage interest deduction equals 8 percent of income, and that the charitable deduction equals 2 percent of income. We assume no other deductions and only the child tax credit, when applicable.

In these examples, we illustrate the three main drivers of AMT: high state and local taxes, high but not stratospheric income, and large families, with special focus on high state-local taxes because those make the biggest difference among AMT filers.

Throughout this AMT debate, politicians have expressed great concern about the new AMT payers without addressing the fundamental question of whether the underlying provisions that are pushing people into AMT are sound tax policies.

For example, look at family scenario #1, which takes children out of the equation and is therefore slightly less complex. Here we have two couples exactly the same except that one lives in a high-tax state and the other in a low-tax state. Currently, Congress is in a lather trying to protect family #1b who, because they live in a high-tax state, will have to pay an additional \$212.50 in

taxes if no AMT patch is passed. Those same congressmen seem to care much less about family #1a, who is not set to get hit by AMT even though family #1a is paying nearly \$1,000 more in taxes than family #1b. And family #1a will actually pay more than family #1b even if the patch fails and family #1b pays AMT.

Shouldn't we be concerned with this difference? If state and local taxes are paid in accordance with the government services received in a state, then why should family #1a, who receives fewer state and local government services, be forced to pay higher taxes to the federal government when family #1b receives more state and local government services?

In closing, lawmakers should be asking deeper questions about the AMT, questions about the wisdom of provisions that cause someone to owe the AMT. These family comparisons raise those questions in a way that suggests AMT filers are often less deserving of a tax cut than someone with identical income who doesn't file the AMT.

**Comparison #1  
Two Married Couples Earning \$90,000, One in a Low-Tax State and One in a High-Tax State**

Tax Item	(1a) Low-Tax State	
	Patch for 2007 (\$66K AMT exemption)	No Patch (Current Law)
Adjusted Gross Income	\$90,000	\$90,000
Personal Exemptions	\$6,800	\$6,800
Mortgage Interest Deduction	\$7,200	\$7,200
State and Local Deduction	\$4,500	\$4,500
Charitable Deduction	\$1,800	\$1,800
Taxable Income	\$69,700	\$69,700
Regular Tax	\$10,272.50	\$10,272.50
AMT Income	\$81,000	\$81,000
AMT Exemption	\$66,250	\$45,000
Tentative Minimum Tax	\$3,835	\$9,360
Alternative Minimum Tax	\$0	\$0
Child Tax Credit	\$0*	\$0*
<b>Total Income Tax Payment</b>	<b>\$10,272.50</b>	<b>\$10,272.50</b>

\* No children under 17 in this family

(1b) High-Tax State

<b>Tax Item</b>	<b>Patch for 2007 (\$66K AMT exemption)</b>	<b>No Patch (Current Law)</b>
Adjusted Gross Income	\$90,000	\$90,000
Personal Exemptions	\$6,800	\$6,800
Mortgage Interest Deduction	\$7,200	\$7,200
State and Local Deduction	\$9,000	\$9,000
Charitable Deduction	\$1,800	\$1,800
Taxable Income	\$65,200	\$65,200
Regular Tax	\$9,147.50	\$9,147.50
AMT Income	\$81,000	\$81,000
AMT Exemption	\$66,250	\$45,000
Tentative Minimum Tax	\$3,835	\$9,360
Alternative Minimum Tax	\$0	\$212.50
Child Tax Credit	\$0*	\$0*
<b>Total Income Tax Payment</b>	<b>\$9,147.50</b>	<b>\$9,360</b>

\* No children under 17 in this family

**Comparison #2**

**Two Married Couples with Two Children, Each Family Earning \$150,000, One in a Low-Tax State and One in a High-Tax State**

(2a) Low-Tax State

<b>Tax Item</b>	<b>Patch for 2007 (\$66K AMT exemption)</b>	<b>No Patch (Current Law)</b>
Adjusted Gross Income	\$150,000	\$150,000
Personal Exemptions	\$13,600	\$13,600
Mortgage Interest Deduction	\$12,000	\$12,000
State and Local Deduction	\$7,500	\$7,500
Charitable Deduction	\$3,000	\$3,000
Taxable Income	\$113,900	\$113,900
Regular Tax	\$21,322.50	\$21,322.50
AMT Income	\$135,000	\$135,000
AMT Exemption	\$66,250	\$45,000
Tentative Minimum Tax	\$17,875	\$23,400
Alternative Minimum Tax	\$0	\$2,077.50
Child Tax Credit	\$0*	\$0*
<b>Total Income Tax Payment</b>	<b>\$21,322.50</b>	<b>\$23,400</b>

\* Child tax credit phases out above \$110K.

**(2b) High Tax State**

<b>Tax Item</b>	<b>Patch for 2007 (\$66K AMT exemption)</b>	<b>No Patch (Current Law)</b>
Adjusted Gross Income	\$150,000	\$150,000
Personal Exemptions	\$13,600	\$13,600
Mortgage Interest Deduction	\$12,000	\$12,000
State and Local Deduction	\$15,000	\$15,000
Charitable Deduction	\$3,000	\$3,000
Taxable Income	\$106,400	\$106,400
Regular Tax	\$19,447.50	\$19,447.50
AMT Income	\$135,000	\$135,000
AMT Exemption	\$66,250	\$45,000
Tentative Minimum Tax	\$17,875	\$23,400
Alternative Minimum Tax	\$0	\$3,952.50
Child Tax Credit	\$0*	\$0*
<b>Total Income Tax Payment</b>	<b>\$19,447.50</b>	<b>\$23,400</b>

\* Child tax credit phases out above \$110K.

**Comparison #3**

**Two Married Couples with Five Children (all under 17), Each Family Earning \$100,000, One in a Low-Tax State and One in a High-Tax State**

**(3a) Low-Tax State**

<b>Tax Item</b>	<b>Patch for 2007 (\$66K AMT exemption)</b>	<b>No Patch (Current Law)</b>
Adjusted Gross Income	\$100,000	\$100,000
Personal Exemptions	\$23,800	\$23,800
Mortgage Interest Deduction	\$8,000	\$8,000
State and Local Deduction	\$5,000	\$5,000
Charitable Deduction	\$2,000	\$2,000
Taxable Income	\$61,200	\$61,200
Regular Tax	\$8,397.50	\$8,397.50
AMT Income	\$90,000	\$90,000
AMT Exemption	\$66,250	\$45,000
Tentative Minimum Tax	\$6,175	\$11,700
Alternative Minimum Tax	\$0	\$3,302.50
Child Tax Credit	\$5,000	\$5,000
<b>Total Income Tax Payment</b>	<b>\$3,397.50</b>	<b>\$6,700</b>

(3b) High-Tax State

<b>Tax Item</b>	<b>Patch for 2007 (\$66K AMT exemption)</b>	<b>No Patch (Current Law)</b>
Adjusted Gross Income	\$100,000	\$100,000
Personal Exemptions	\$23,800	\$23,800
Mortgage Interest Deduction	\$8,000	\$8,000
State and Local Deduction	\$10,000	\$10,000
Charitable Deduction	\$2,000	\$2,000
Taxable Income	\$56,200	\$56,200
Regular Tax	\$7,647.50	\$7,647.50
AMT Income	\$90,000	\$90,000
AMT Exemption	\$66,250	\$45,000
Tentative Minimum Tax	\$6,175	\$11,700
Alternative Minimum Tax	\$0	\$4,052.50
Child Tax Credit	\$5,000	\$5,000
<b>Total Income Tax Payment</b>	<b>\$2,647.50</b>	<b>\$6,700</b>

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