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## **AMT Taxpayers Have Benefited Greatly from Bush Tax Cuts**

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### **Fiscal Fact No. 86**

Over the past few years, the growth of the Alternative Minimum Tax (AMT) has received more attention than any other federal tax issue. Many politicians have proclaimed that the AMT foists an unfair financial burden on "middle-class" taxpayers who allegedly were not helped much by the Bush tax cuts. This *Fiscal Fact* shows that, on the contrary, current AMT filers benefited enormously from the Bush tax cuts.

IRS data show that most people filing the AMT now earn between \$100,000 and \$500,000. If the Bush tax cuts and the AMT disappeared today, nearly every one of those taxpayers would pay more to Uncle Sam, often thousands of dollars more. In fact, average AMT taxpayers in 2007 under current law will pay nearly \$2,800 less, even counting their AMT payments, than they would pay if the Bush tax cuts had never happened. On the other hand, tax returns not scheduled to be hit by AMT in 2007 will save an average of \$989 from the tax cuts this year.

The Alternative Minimum Tax is a parallel tax system that requires taxpayers to recalculate what they owe, using different rules and rates. These AMT rules include a generous initial exemption yet allow fewer deductions than the regular code. The AMT is closer to a flat tax, with only two tax rates, 26 and 28 percent. Once somebody calculates what he owes under this system, he compares it to what he has calculated with the regular tax rules. The taxpayer pays whichever is larger, and if it's the AMT, then he's officially an AMT filer.<sup>1</sup> (For more on the AMT, see *Tax Foundation Special Report*, No. 155, May 2007.)

The Bush tax cuts are scheduled to push more people into AMT in 2007 because the cuts lowered the ordinary rates while doing little for the AMT system. Only annual patches—dramatic hikes in the exemption level—have prevented the number of AMT filers from soaring, and while such a patch is likely again this year, the political rhetoric regarding who these AMT taxpayers are needs to be put in proper perspective.<sup>2</sup>

Even though the Bush tax cuts have pushed more people into this parallel tax system, the AMT certainly does not take back all the tax savings that the tax cuts conferred. On the

contrary, people have been pushed into AMT over the past six years largely because of the dramatic tax cuts on the regular side of the tax code.

The table below shows that for those 23 million taxpayers expected to file an AMT return in 2007 (under current law, assuming no change in the exemption level), the savings from the Bush tax cuts far outweigh the additional AMT burden.<sup>3</sup>

**Figure 1. Tax Year 2007 Savings from Bush Tax Cuts: AMT Taxpayers Still Come Out Far Ahead Following Tax Cuts**

AGI Group	Savings from Tax Cuts Before AMT	Extra AMT Payment	Net Tax Savings
All Tax Returns	\$4,696	\$1,920	\$2,776
\$1 - \$50,000	\$1,042	\$300	\$742
\$50,000 - \$74,999	\$1,352	\$420	\$931
\$75,000 - \$99,999	\$2,279	\$793	\$1,486
\$100,000 - \$149,999	\$3,224	\$1,515	\$1,709
\$150,000 - \$199,999	\$4,301	\$2,497	\$1,804
\$200,000 - \$499,999	\$8,185	\$4,687	\$3,498
\$500,000 - \$999,999	\$23,223	\$4,804	\$18,420
\$1 million and Over	\$134,399	\$7,152	\$127,247

**Note:** Data on returns with AGI under \$50,000 are more problematic, as the cause of AMT filing is more likely to be a source of income outside of AGI.

**Source:** Tax year 2007 projections from Tax Foundation Microsimulation Model.

A complete version of this table is available at <http://www.taxfoundation.org/publications/show/22424.html>

As the table makes clear, even though the number of AMT filers and their AMT payments have grown, those same filers have still benefited significantly from the tax cuts. For example, in 2007, the average tax return earning between \$100,000 and \$150,000 that will be hit with AMT is paying an additional \$1,515 in AMT as a result of the Bush tax cuts. However, the dramatic reduction in ordinary tax liability<sup>4</sup>—averaging \$3,224—far outweighs the increased AMT payment. In the end, the average AMT taxpayer in that income group will save \$1,709 as a result of the tax cuts, even with the AMT.

Consider a restaurant analogy. Suppose a restaurant that used to charge \$10 for a hamburger or cheeseburger (same price) dropped its prices and instead charged \$7 for the hamburger plus \$1 extra for cheese. Every consumer is better off, but there will inevitably be cheeseburger lovers who cry about the extra \$1 charge for cheese. They are either unaware of the old prices, or they just don't like being singled out. Those are

today's AMT filers, paying extra for the AMT but still paying a much smaller total than they used to.

### **Conclusion**

It is true that the Bush tax cuts have pushed more people into AMT and have raised their AMT liabilities. But without the Bush tax cuts, these same taxpayers would be paying a much higher ordinary tax bill in the first place. Instead of paying an additional tax on top of a small tax bill, they would be paying no charge on top of a big tax bill.

### **Notes**

- 1.** Technically, the Alternative Minimum Tax amount that is inserted on line 45 of the 1040 (2006) is the difference between the tax one calculated under the ordinary system and the tax calculated under the AMT system. If it is zero or less (i.e. the ordinary tax was greater than or equal to the amount calculated under the AMT system), the amount written on line 45 is zero and that person is not an AMT filer.
- 2.** AMT served as a backstop for keeping the original revenue loss of the tax cuts lower, even though annual patches have made that revenue loss higher.
- 3.** Some economists may argue Ricardian Equivalence (or Barro Equivalence), saying that no real savings have taken place as a result of the tax cuts because they have also led to an increase in the national deficit and thereby future tax liabilities. Such equivalence conditions do not hold in practice typically, however, because of life-cycle paths, short-sightedness among economic actors, and also death with little or no concern for heirs.
- 4.** Also includes credits such as child tax credit which are currently allowed to be taken against one's combined AMT and ordinary tax before credits.