



What's the Alternative: Addressing Tax Reform in a Polarized Congress

Overview

The current administration has set an ambitious legislative agenda for its first year in office including immigration and healthcare reform, an overhaul of the tax code, and passing an infrastructure bill. With the fate of healthcare uncertain, tax reform may be the next legislative agenda item the administration pursues. The President's initial tax plan rollout highlighted some of his goals - among them - repealing the Alternative Minimum Tax (AMT). Abolishing the Alternative Minimum Tax, which increases taxes for wealthier individuals and households, has been prioritized in an effort to simplify the tax code. Reforming the U.S. tax code is a monumental task on its own, and changing a tax policy that has been on the books for nearly four decades, as the AMT has, is certain to stir debate on Capitol Hill. This Basic addresses the history and practicality of the Alternative Minimum Tax and where the debate in Congress might go as tax reform is addressed.

What is the "Alternative Minimum Tax?"

The Individual Alternative Minimum Tax, an additional tax to the regular income tax, was instituted to prevent wealthy individuals from artificially reducing their taxes by using deductions, not reporting certain types of income, and utilizing certain loopholes. AMT requires some taxpayers to calculate their liability twice if they fall within certain income brackets. Specifically, a taxpayer must calculate their tax liability once under the rules for the regular income tax and again under the AMT rules. After calculating the two tax burdens, the taxpayer is then required to pay the higher amount of the two calculations. It is estimated that approximately five million Americans are affected by the AMT.

History of the AMT

In 1969 then-Treasury Secretary Joseph W. Barr came before Congress to notify them that 155 taxpayers who had earned more than \$200,000 paid no federal income tax in 1966. The American people were outraged by this and the first individual minimum tax was quickly enacted. This first individual minimum tax was called an "add-on minimum tax." In layman's terms, it was a federal tax that was paid in addition to the regular income tax. At the time, the add-on minimum tax was set at a rate of 10% and it applied to certain forms of income referred to as "tax preferences." These tax preferences were generally taxed very lightly or not at all under the regular income tax. The tax preference that was specifically targeted by the new add-on tax was capital gains.

When Congress passed the Revenue Act of 1978, major structural changes were enacted that left the add-on minimum tax intact but created the precursor for the current alternative minimum tax. This was an entirely new tax, similar to what we know today, which was assessed on a taxpayer's regular taxable income, plus the

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In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org.

Other Resources

- Bipartisan Policy Center — [Two Birds, One Stone: Tax Reform and Infrastructure](#)
- Center on Budget and Policy Priorities (CBPP) — [Revised Trump Tax Plan Not Revised Enough](#)
- Congressional Research Service — [The Alternative Minimum Tax for Individuals: In Brief](#)
- Forbes — [What Exactly Is The Alternative Minimum Tax \(AMT\)?](#)
- Tax Policy Center — [What is the AMT](#)
- The New York Times — [A.M.T., With Few Defenders, Is Newly Targeted in Trump Tax Plan](#)

amount of certain tax preferences that were either lightly taxed or untaxed under the regular income tax. While today it is required to calculate a regular income tax rate and an AMT rate to determine which rate to pay, at that time taxpayers paid the alternative minimum tax only if it exceeded the sum of their regular income tax liability and their add-on minimum tax liability.

The add-on minimum tax first passed in 1969 was repealed in 1982 by the Tax Equity and Fiscal Responsibility Act of 1982. This legislation, however, kept a modified version of the modern AMT. A complete legislative history of the AMT can be found [HERE](#).

It is important to note that the number of taxpayers affected by the AMT continued to grow throughout the first decade of the 21st Century because of changes made by Congress to the tax code in the years prior and throughout the early 2000s. The regular income tax was indexed for inflation, but the AMT was not. Currently, about 1.9% of households earning \$100,000 to \$200,000, 30.3% earning \$200,000 to \$500,000, and 62.9% earning \$500,000 to \$1 million are affected by the Alternative Minimum Tax.

In Debate: Where AMT Might Show Up

Depending on how congressional Republicans and the White House pursue their agenda, the AMT could be addressed as a part of an infrastructure package or simply as a part of tax reform. Several mechanisms to finance infrastructure projects already exist within the tax code. The tax code often incentivizes state and local leaders, as well as private investors, to lure the financing of infrastructure projects. One of those incentivizing mechanisms is a Private Activity Bond (PAB). PABs extend favorable tax treatment to public-private partnerships when it comes to funding projects like infrastructure improvements. However, a key sticking point on PABs is that they are not considered tax-exempt debt. PABs are subject to the AMT, which make them less attractive for financing consideration. Some legislation currently before Congress would change that to encourage greater use of PABs. If tax and infrastructure bills are taken up as a package deal, watch for the AMT to change in the process.

On a very basic level, the goal of the AMT is quite simple: in a tax system with too many loopholes, society's top earners must pay their fair share. If tax reform is taken on as it's own legislative measure, expect both sides to offer up solutions on how to address the AMT. Both Democrats and Republicans argue it has not achieved its purpose. The President and House Republicans both wish to eliminate the AMT in an effort to reduce taxes overall. Democratic efforts will likely seek to eliminate the AMT, but replace it with a higher, flat rate on high-income households. It goes without saying that the approaches to reforming the AMT on both sides of the aisle are squarely in contrast to each other. With the original intent of the AMT being so clear, and given the uncertainty regarding the legislative calendar, it is hard to say whether the battle over this part of the tax code will bog down the broader debate over tax reform.

Conclusion

The value of the AMT has long been debated since it originated in 1978. Undoubtedly, AMT is a confusing topic. The American tax code is complex, and trying to make any changes in a polarized environment like Congress will be complicated. While many Americans are required to fill out the extra paperwork when filing their taxes, relatively few actually have to pay the tax. Taxpayers in the lowest income brackets do not earn enough to pay the tax, and most high-income earners either already pay a high enough rate or pay the AMT as prescribed by the law. It does leave a significant amount of taxpayers in the middle left to find out if they are required to pay the AMT, but in most cases they are not subject to the tax. In 2014, just under 3% of all taxpayers, or about 4.2 million people, were affected by the AMT paying a combined \$28.6 billion. So while the AMT affects a relatively small portion of the tax base, it is significant enough and will certainly be included in any comprehensive overhaul of the tax code. .

Links to Other Resources

- Bipartisan Policy Center — Two Birds, One Stone: Tax Reform and Infrastructure
<https://bipartisanpolicy.org/blog/tax-reform-and-infrastructure/>
- Center on Budget and Policy Priorities (CBPP) — Revised Trump Tax Plan Not Revised Enough
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- Forbes — What Exactly Is The Alternative Minimum Tax (AMT)?
<https://www.forbes.com/sites/kellyphillipserb/2017/03/15/what-exactly-is-the-alternative-minimum-tax-amt/#570f841c3dc9>
- Tax Policy Center — What is the AMT
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- The New York Times — A.M.T., With Few Defenders, Is Newly Targeted in Trump Tax Plan
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