

# HOUSE RESEARCH

## Bill Summary

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**Subject:** Reducing alternative minimum tax

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### Overview

Increases the alternative minimum tax (AMT) exemption amount from \$40,000 to \$45,000 for married couples filing joint returns, and from \$30,000 to \$33,750 for unmarried filers, and adjusts the exemption annually for inflation. Eliminates the income-based phaseout of the AMT exemption. Allows an AMT mortgage interest deduction of up to \$5,000 annually, and adjusts this maximum annually for inflation. Phases-out the income limitation on deduction of charitable contributions under the AMT from 2005 to 2008, when contributions would be fully deductible.

### Section

- 1 Alternative minimum tax; charitable contribution deduction; mortgage interest deduction.** Phases out the limitation on the charitable contribution deduction in Minnesota's AMT, so that contributions will be fully deductible beginning in tax year 2008. Under current law, contributions in excess of one percent of adjusted gross income are allowed as a deduction. The bill reduces the limit under the following schedule:

<b>Proposed adjusted gross income threshold on deduction of charitable contributions under the alternative minimum tax</b>	
Tax year 2005	0.75 percent
Tax year 2006	0.5 percent
Tax year 2007	0.25 percent
Tax year 2008 and following years	0 percent

**Section**

Also allows taxpayers to deduct up to \$5,000 of mortgage interest from alternative minimum taxable income. Beginning in tax year 2006 the maximum mortgage interest deduction would be adjusted for inflation.

- 2** **Alternative minimum tax exemption amount and exemption phaseout.** Increases the AMT exemption amount to \$45,000 for married couples filing joint returns, and \$33,750 for unmarried filers, effective in tax year 2005. Provides for the exemption to be indexed annually for inflation beginning in tax year 2006. Under current law the exemption equals \$40,000 for married joint filers, \$20,000 for married separate filers, and \$30,000 for unmarried filers.

Eliminates the current phaseout of the exemption amount. Under current law the exemption phases out for married joint taxpayers with alternative minimum taxable income between \$150,000 and \$310,000, and for unmarried filers with AMT income between \$112,500 and \$232,500.