

## Minnesota Individual Alternative Minimum Tax

***What is the alternative minimum tax?***

The theory underlying the federal and state alternative minimum taxes (AMT) is to require taxpayers who benefit heavily from some tax preferences to pay a minimum amount of tax relative to their incomes. The AMT requires taxpayers to pay tax under an “alternative” tax with a broader base and lower tax rates, if that results in higher tax liability than the regular tax.

***What is the history of the AMT?***

The first version of the federal tax was enacted in 1969 in response to the revelation that a number of “millionaires” were paying no federal income tax. Minnesota first enacted an AMT in 1977. For some time during the 1970s and 1980s, both the federal and state taxes were levied as “add-on minimum” taxes, rather than alternative minimum taxes, and required certain taxpayers to pay a fraction of some preferences as an add-on minimum tax. The basic structure of the two taxes has been in place since the 1986 federal reform and 1987 state reform. Both Congress and the legislature have made many changes, both in defining the base of the taxes and their rates.

***How is Minnesota’s AMT structured?***

Minnesota’s AMT roughly follows the federal AMT. Both follow the model of requiring taxpayers to compute a tentative liability under a second tax structure. This second tax structure, the AMT, has a broader tax base (due to fewer deductions, exemptions, and credits) and lower rates than the regular tax. If the tentative tax is higher than the taxpayer’s regular tax liability, the taxpayer pays the difference. In effect, the AMT takes away part of the benefit of tax preferences that lowered the regular tax.

***Who pays the AMT?***

AMT filers fall into three main groups:

- Those who have large amounts of deductions that are allowed under the regular tax but not under the AMT
- Taxpayers with large families whose personal exemptions and standard deduction (or typical itemized deductions) under the regular tax exceed the flat exemption amount allowed under the AMT
- Taxpayers with income above the level at which the AMT exemption is fully phased out

***How are the federal and state AMTs different?***

The federal and state AMTs have three major differences.

- The federal AMT allows the deduction of home mortgage interest; the Minnesota AMT does not.
- The Minnesota AMT has one flat rate, while the federal tax has two rates.
- The Minnesota AMT has a higher exemption amount than the federal AMT and the Minnesota exemption is indexed for inflation, while the federal exemption is not.

***How are the Minnesota regular tax and AMT different?***

The Minnesota AMT uses a broader tax base than does the regular tax and applies a single 6.4 percent rate against that base. The following table outlines the parameters of the Minnesota regular and alternative minimum tax.

**Comparison of Minnesota’s Regular Income Tax and AMT**  
(\$ amounts are for the 2012 tax year)

<b>Feature</b>	<b>Regular Tax</b>	<b>AMT</b>
<b>Tax base</b>	Federal adjusted gross income	Federal adjusted gross income
<b>Rules carried over from federal AMT</b>		Less generous depreciation rules Incentive stock options Depletion Intangible drilling costs Tax-exempt interest from private activity bonds
<b>Standard deduction</b>	\$9,900 (married joint) \$5,950 (single) \$8,700 (head of household)	\$69,230 for married joint (phased out for income from \$150,000 to \$426,920) \$51,930 for single and head of household (phased out for income from \$112,500 to \$320,220)
<b>Personal exemptions</b>	\$3,800 per taxpayer, spouse, and dependents	None
<b>Itemized deductions</b>	Home mortgage interest  Charitable contributions Property taxes Medical expenses Miscellaneous deductions (e.g., employee business expenses) Casualty losses	Not allowed (federal allows, with limits)  Allowed Not allowed (same as federal) Allowed Not allowed Allowed
<b>Tax rates</b>	5.35%; 7.05%; 7.85%	6.4% (federal is 26%; 28%)
<b>Tax credits</b>	Credit for taxes paid to other states Transit passes Other nonrefundable credits (Long-term care insurance, marriage credit, past military service, health insurance premiums) Refundable credits (working family, dependent care, K-12 education, combat zone service, bovine tuberculosis, angel investment, historic structure rehabilitation)	Allowed Not Allowed Allowed  Allowed, but the K-12 credit is reduced by AMT liability

***How much revenue does the AMT raise?***

The Minnesota AMT is estimated to raise about \$27.6 million in tax year 2012, from about 15,800 taxpayers. The amount of revenue and the number of taxpayers paying the AMT are expected to increase in future years. Although the exemption is indexed annually for inflation, the AMT will tend to increase as real income increases and as AMT preference items, such as home mortgage interest and property taxes, increase more rapidly than inflation.

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