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Majority of Taxpayers Affected by AMT Also Claim Capital Gains or Dividend Income

by Gerald Prante

The current debate on Capitol Hill over what type of tax bill should emerge from a conference committee is pitting many Democrats who argue that AMT relief should be the top tax relief priority against many Republicans who believe that extending capital gains and dividend tax relief should be the top priority.

Both sides claim their position will benefit a distinct group of people—either taxpayers affected by the AMT, or those earning capital gains or dividends. The underlying assumption is that these two groups of taxpayers are mutually exclusive. However, an analysis of data from the Internal Revenue Service (IRS) and the Congressional Budget Office (CBO) shows these groups are not distinct sets of taxpayers at all. In fact, there is a high degree of overlap between them.

Using the most recent IRS data available and projecting out the number of AMT filers by income cohorts, Table 1 shows the percentage of taxpayers claiming capital gains or dividends among those who are affected by the AMT, by income group.

Table 1. Many AMT Filers Also Claim Capital Gain and Dividend Income

Adjusted Gross Income	Percentage of AMT Returns with Capital Gains or Dividend Income	Percentage of Tax Filers Projected to Have 2006 AMT Liability	Percentage of All Projected 2006 AMT Filers in Income Group
\$50,000 - \$99,999	50.6%	34.6%	40.4%
\$100,000 - \$199,999	77.9%	81.1%	43.6%
\$200,000 - \$499,999	93.9%	86.9%	9.9%
\$500,000 - \$999,999	99.3%	30.4%	0.6%
\$1 million or over	99.9%	23.4%	0.2%
<i>Total</i>	<i>64.7%</i>	<i>11.6%</i>	<i>100%</i>

Source: Congressional Budget Office, Internal Revenue Service, and Tax Foundation calculations. All projections assume current tax law.

As illustrated in Table 1, many taxpayers affected by the AMT also earn capital gains or dividend income. Even among those many would classify as “middle class,” the majority of taxpayers affected by the AMT also claim some form of dividend or capital gains. In the income group most affected by the AMT—the \$100,000-\$199,999 range—more than three-fourths of taxpayers claim some dividend or capital gains income. Overall, nearly two-thirds of all AMT filers also receive income from dividends or capital gains, illustrating the high degree of overlap between the two groups.

Politically, members of Congress wish to be seen as representing their constituents on the issue of AMT relief versus capital gains and dividend tax relief. For this reason, members from states with large numbers of taxpayers affected by the AMT—such as New Jersey, New York and Connecticut—are fighting for AMT relief and against capital gains and dividend tax relief. However, as Table 2 shows, many of the same states with large numbers of taxpayers affected by the AMT also have the most taxpayers earning capital gains or dividends.

Table 2. States with the Most AMT Filers Often Earn the Most Capital Gains

Top 10 States by Percentage of Returns Affected by the AMT (Capital Gains Rank in Brackets)		Top 10 States by Percentage of Returns Claiming Capital Gains (AMT Rank in Brackets)	
1.	New Jersey (2)	1.	Connecticut (3)
2.	New York (17)	2.	New Jersey (2)
3.	Connecticut (1)	3.	Montana (29)
4.	California (20)	4.	Colorado (25)
5.	Massachusetts (7)	5.	South Dakota (49)
6.	Maryland (26)	6.	North Dakota (45)
7.	Rhode Island (31)	7.	Massachusetts (5)
8.	Minnesota (8)	8.	Minnesota (8)
9.	Oregon (11)	9.	Nebraska (20)
10.	Virginia (22)	10.	Wisconsin (13)

Source: Internal Revenue Service, 2003.

This analysis suggests that battles over whether AMT filers or recipients of capital gains or dividends should benefit from the current tax bill in conference are based on a misunderstanding of these groups of taxpayers, given that both are populated by many of the same individuals.

(For more information please contact [William Ahern](#) at (202) 464-5101.)