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Alternative Minimum Tax
(General Fund Taxes -- Income and Franchise Taxes)

CURRENT LAW

A taxpayer's alternative minimum tax (AMT) is calculated by first determining alternative minimum taxable income (AMTI), subtracting any allowable exemption, and applying the AMT rate of 6.5%. The base for computing AMTI is regular taxable income, to which adjustments and tax preference items are added (or recaptured). An exemption is provided to taxpayers with an AMTI below specified amounts. The exemptions vary by filing status and phase out as income rises. Finally, the taxpayer's AMT liability is compared to the taxpayer's regular tax liability. If the AMT liability exceeds the regular tax amount, an AMT is owed equal to the difference. Some state tax credits are applied to the regular tax, before AMT liability is calculated, while other credits are applied after the AMT liability is calculated to the combined amounts of regular tax and AMT.

GOVERNOR

No change to current law.

DISCUSSION POINTS

1. The alternative minimum tax is a component of both the federal and state individual income tax systems, and Wisconsin's AMT is modeled after the federal tax. The tax is a means to ensure that at least a minimum amount of income tax is paid by individuals who have large tax savings from the use of certain tax deductions and exclusions. That is achieved by adding back certain tax preference items to the taxpayer's regular taxable income. In tax year 2014, there were 19 add-backs for tax-advantaged treatments of investment income and business expenses. Also, certain itemized deductions are subject to add-back. Wisconsin AMTI equals federal AMTI, with certain

adjustments. The Wisconsin adjustments reflect differences between the Internal Revenue Code and Wisconsin statutes pertaining to the definition of AGI. The adjustments do not reflect differences regarding which items should be added back as tax preference items.

2. The 2013-15 biennial budget act, 2013 Wisconsin Act 20, included a number of changes to the individual income tax, which took effect in tax year 2013. The Act reduced the number of tax brackets from five to four by combining the third and fourth tax brackets. Also, the Act reduced each of the corresponding tax rates. In 2012, tax rates were set at 6.50% for the third bracket, 6.75% for the fourth bracket, and 7.65% for the fifth bracket. Beginning in tax year 2013, the rates for the top two brackets are set at 6.27% (previously the third and fourth brackets) and 7.65% (previously the fifth bracket). Previously, three of the state's five tax rates equaled or exceeded the AMT rate of 6.50%, but now, the AMT rate is only lower than the highest marginal tax rate.

3. The Act 20 changes caused more taxpayers to incur an AMT liability in 2013 than in 2012, and between the two years, the number of taxpayers subject to the Wisconsin AMT increased by 263.2%, from 7,656 to 27,807. The increase in the number of taxpayers subject to the AMT resulted in a similar increase in AMT liabilities, as AMT liabilities increased from $7.5 million to $26.1 million, or by 249.5%. The average AMT liability decreased slightly between the two years from $977 to $940 (-4%). However, average AMT liabilities increased for taxpayers in AGI groupings of more than $500,000, while decreasing for taxpayers in AGI groupings of less than $500,000. The following table reports the change in taxpayers and liabilities for six AGI groupings.

Change in Alternative Minimum Tax Liabilities for Taxpayers in Six Income Groups, Tax Years 2012 and 2013

	Tax Year 2012			Tax Year 2013		
Wisconsin AGI	Count	Amount	Average	Count	Amount	Average
Under $100,000	4,441	$3,572,594	$804	5,853	$4,230,888	$723
$100,000 to $150,000	267	555,460	2,080	554	889,753	1,606
$150,000 to $200,000	306	487,802	1,594	904	958,734	1,061
$200,000 to $500,000	2,552	2,167,857	849	20,081	14,347,084	714
$500,000 to $1 million	70	425,151	6,074	305	2,313,672	7,586
Over $1 million	20	272,720	13,636	110	3,408,354	30,985
Total	7,656	$7,481,584	$977	27,807	$26,148,485	$940

4. The largest increases, both in the count of taxpayers subject to the minimum tax and in AMT liability, occurred for taxpayers with AGI of $200,000 to $500,000. In this income group, the count increased from 2,552 to 20,081, and the total AMT liability increased from $2.2 million to $14.3 million. By combining the third and fourth tax brackets, Act 20 created a bracket which is quite wide, compared to the two lower tax brackets. In tax year 2013, the third tax bracket reached from $21,490 to $236,599 for single filers and from $28,650 to $315,459 for married-joint filers. Prior to the Act, the marginal tax rates for the two tax brackets were 6.5% and 6.75%, but the marginal rate for the combined brackets is now 6.27%. Previously, the marginal rates were at or

above the AMT rate, but now the rate for the combined brackets is below the AMT rate.

5. The juxtaposition of the marginal tax rates and the AMT rate results in taxpayers in the third tax bracket (6.27%) more likely to be subject to the AMT than persons in the top tax bracket (7.65%). Under the new tax structure, taxpayers in the 6.27% bracket can incur an AMT liability while claiming few or no tax preference items in calculating their regular tax. Higher income taxpayers are more likely to have enough of their income taxed at the 7.65% rate under the regular tax so that they do not have an AMT liability unless they also claim tax preference items. It can be argued that this treatment between the two taxpayer groups is contrary to the purpose of the AMT, which is to ensure that taxpayers are not able to eliminate their regular tax liability through tax preference deductions.

6. For tax year 2012, the table reveals that the under $100,000 AGI group comprised over half of the AMT taxpayers and almost half of the AMT liabilities. Tax preference items cause these taxpayers to have relatively low AGI in comparison to their alternative minimum taxable income. Some of these taxpayers may also be non-residents or part-year residents.

7. Despite the large rates of increase in the number of AMT filers and the amount of AMT liabilities, the AMT is a relatively small component of the state's individual income tax system. In tax year 2013, there were 2.1 million filers with net tax liabilities of $6,583.7 million, prior to the application of the minimum tax. In 2012 and 2013, almost all of the taxpayers with a state AMT liability had some regular tax liability, so the AMT increased the amount of taxes they were required to pay. However, 1,090 2012 filers and 784 2013 filers had only an AMT liability. For 2013, the AMT increased individual income tax liabilities by 0.4% for the state as a whole, and filers with an AMT liability represented 1.3% of all filers with an individual income tax liability.

8. While the AMT complements the federal individual income tax, relatively few states have an AMT. Of the 43 states and the District of Columbia imposing an individual income tax in 2014, only six states had an AMT -- California, Colorado, Connecticut, Iowa, Minnesota, and Wisconsin. In 2013, Nebraska and New York also imposed a minimum tax, but each eliminated its AMT effective in 2014. Among the six states with an AMT, each has a larger spread in percentage points between the top tax rate and the AMT rate than Wisconsin. If Wisconsin's AMT rate was reduced from 6.50% to 6.27% (the rate for the third tax bracket) effective in tax year 2015, individual income tax collections would decrease by an estimated $16.5 million in 2015-16 and $14.8 million in 2016-17 (Alternative #2). This alternative would cause the number of taxpayers with an AMT liability to decrease by 15,000 taxpayers, from an estimated 31,000 to 16,000.

9. For the two tax years coinciding with the coming biennium, AMT liabilities are estimated to increase to $27.8 million in 2015 and $30.5 million in 2016. These increases are due, in part, to Wisconsin not indexing its AMT exemption amounts. Both for federal and state purposes, exemptions reduce the amount of AMTI subject to the AMT. In tax year 2000, federal exemption amounts were set at $45,000 for married-joint filers, $33,750 for single filers, and $22,500 for married taxpayers filing separate returns. The federal exemption amounts were increased several times on a temporary basis between 2001 and 2011. In 2012, the federal exemption amounts were increased on a permanent basis and indexed for inflation in future tax years. The exemption amounts for tax year 2012 were set at $78,750 for married-joint filers, $50,600 for single filers, and

$39,375 for married taxpayers filing separate returns. Under indexing, the tax year 2015 exemption amounts have increased to $83,400 for married-joint filers, $53,600 for single filers, and $41,700 for married taxpayers filing separate returns.

10. Wisconsin has not adopted the federal increases to the AMTI exemption amounts, nor does Wisconsin index its exemption amounts for inflation. Instead, Wisconsin's exemption amounts are set equal to the federal exemption amounts in effect in tax year 2000 -- $45,000 for married-joint filers, $33,750 for single filers, and $22,500 for married taxpayers filing separate returns. The exemption phases out for taxpayers with AMTI between $150,000 and $300,000 if filing married-joint, $112,500 and $247,500 if filing single, and $75,000 and $165,000 if filing married-separate. The federal exemption is also subject to phase-out, which begins at $158,900 for married-joint filers, $119,200 for single filers, and $79,450 for married-separate filers. Adopting the federal treatment regarding exemption amounts, phase-out provisions, and indexing adjustments, effective with tax year 2015, would decrease individual income tax collections by an estimated $22.9 million in 2015-16 and $21.1 million in 2016-17 (Alternative #3). This alternative would cause the number of taxpayers with an AMT liability to decrease by 29,000 taxpayers, from an estimated 31,000 to 2,000.

11. A final option for the Committee to consider is the repeal of the Wisconsin AMT. If the Committee believes that regular AGI is a better reflection of a taxpayer's ability to pay than AGI with the add-back of the AMT tax preference items, then the Committee could repeal Wisconsin's AMT (Alternative #4). If the Committee believes that the AMT is a means to ensure that at least a minimum amount of income tax is paid by individuals who have large tax savings from the use of certain tax deductions and exclusions, then Wisconsin's AMT could be retained (Alternative #1). Repealing the Wisconsin alternative minimum tax, effective in tax year 2015, would decrease individual income tax collections by an estimated $33.1 million in 2015-16 and $29.8 million in 2016-17. In tax year, an estimated 31,000 taxpayers are estimated to have an AMT liability under current law provisions.

ALTERNATIVES

1. Retain current law.

2. Reduce the tax rate for Wisconsin's minimum tax from 6.5% to 6.27%, effective in tax year 2015. Decrease individual income tax collections by an estimated $16,500,000 in 2015-16 and $14,800,000 in 2016-17.

ALT 2	**Change to Bill**
GPR-REV (Tax)	- $31,300,000

3. Modify the Wisconsin minimum tax by adopting the federal treatment related to exemption levels, phase-out amounts, and indexing adjustments, as modified by the American Taxpayer Relief Act of 2012 (P.L. 112-240). Decrease individual income tax collections by an estimated $22,900,000 in 2015-16 and $21,100,000 in 2016-17.

ALT 3	Change to Bill
GPR-REV (Tax)	- $44,000,000

4. Repeal the Wisconsin minimum tax effective for tax year 2015. Decrease individual income tax collections by an estimated $33,100,000 in 2015-16 and $29,800,000 in 2016-17.

ALT 4	Change to Bill
GPR-REV (Tax)	- $62,900,000

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