

The Alternative Minimum Tax

An American Injustice

<http://www.reformamt.org/>

Background

The Alternative Minimum Tax (AMT) was created 32 years ago to ensure an equitable system in which everyone pays their fair share – particularly the ultra-wealthy who manipulated the system to avoid paying taxes altogether. Unfortunately, the AMT rarely applies to these high-income taxpayers anymore; instead, it has become the Alternative Maximum Tax, hitting hardest those it intended to protect.

The Face of AMT

Those caught in the grips of AMT come from every walk of life and work in every major industry in the United States. The U.S. Treasury estimates that **nearly 2.7 million taxpayers this year**, double the number two years ago, will be adversely affected by the AMT. Those same projections estimate that the number could jump to 35 million people **in 2010 - nearly one third of American taxpayers.**

AMT and Incentive Stock Options

Many companies offer Incentive Stock Options (ISO's) as a meaningful way of engaging their employees and rewarding hard work. In fact, approximately 15 million people in the U.S. hold ISO's today – from multiple industry sectors.

A SAMPLE OF SECTORS UTILIZING ISO'S

Computer Software and Services	13.3 %
Financial Services	11.9 %
Durable Goods Manufacturing	11.0 %
High-Technology Manufacturing	7.5 %
Retail/Wholesale	6.7 %
Energy/Mining	4.3 %
Insurance	3.8 %
Transportation	3.5 %

**Based on a 2000 NASPP/PricewaterhouseCoopers Survey*

Unfortunately, because of the way the AMT works, ISO/AMT taxpayers face the most egregious tax scenarios. With the stock market slump in 2000, and the devastating financial loss that ensued, thousands of ISO/AMT taxpayers were left with tax liabilities on unrealized or phantom gains that equal 200-400% of their annual salaries and net worth. **Essentially, these victims of AMT have been forced to pay taxes on assets they will never receive.**

Basic ISO/AMT Analogy

Anne purchases a \$1 lottery ticket. The payoff is potentially \$10 million. Anne doesn't win and loses her \$1 investment. Under the ISO/AMT system, Anne would have to pay 28% tax – or \$2.8 million – on the money she might have won.

An Unrealized Credit

Because the AMT is essentially a prepayment on future taxes, it establishes a credit designed to eventually return overpayments. Ironically, the credit favors the group of individuals that the AMT originally targeted – those with a substantial net worth – and is all but impossible to recover for nearly everyone else. **The reality is that most middle-income taxpayers receive only a negligible credit each year, meaning that the majority of people will wait a lifetime or more to be reimbursed.**
