

# 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.**

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