



Iowa Department of  
**REVENUE**

**Iowa's Alternative Minimum Tax Credit  
Tax Credits Program Evaluation Study**

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**Preface**

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the first evaluation study completed for this administrative tax credit.

This study and other evaluations of Iowa tax credits can be found on the [Tax Credits Tracking and Analysis Program web page](#) on the Iowa Department of Revenue website.

## Table of Contents

|   |    |
|---|----|
| I. Introduction .....   | 5  |
| II. Iowa Alternative Minimum Tax Credit.....  | 5  |
| III. Alternative Minimum Tax Credits at the Federal Level and in Other States .....   | 6  |
| IV. Analysis of Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims .....  | 7  |
| V. Conclusion .....   | 8  |
| Tables and Figures.....   | 9  |
| Table 1. Iowa Alternative Minimum Tax Paid by Tax Type, Tax Years 2005 - 2013 ..  | 11 |
| Table 2. Iowa Alternative Minimum Tax Credit Claims by Tax Type, Tax Years 2006 - 2013 .....  | 12 |
| Table 3. Difference Between Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims, .....   | 13 |
| Figure 1. Average Distribution by Adjusted Gross Income of Individual Income Taxpayers Paying Iowa Alternative Minimum Tax Versus Taxpayers Claiming the Iowa Alternative Minimum Tax Credit, Tax Years 2006-2013 ..... | 14 |
| Figure 2. Average Distribution by Federal Net Income of Corporation Income Taxpayers Paying Iowa Alternative Minimum Tax Versus Taxpayers Claiming the Iowa Alternative Minimum Tax Credit, Tax Years 2006-2013 .....   | 15 |

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## **I. Introduction**

The Iowa Alternative Minimum Tax (Iowa AMT) Credit went into effect for tax years beginning on or after January 1, 1988. A taxpayer may be eligible for the Iowa Alternative Minimum Tax Credit if they paid Iowa alternative minimum tax in previous years based on tax preferences and adjustments. The tax credit is nonrefundable and cannot be transferred to another taxpayer, but the tax credit does not expire. The tax credit can be claimed against corporation income, individual income, and franchise taxes.

Section II of this study will further explain the Iowa Alternative Minimum Tax Credit. Section III of this study will provide information about if other states levy an alternative minimum tax and allow a corresponding alternative minimum tax credit. Section IV will look at the statistics related to Iowa alternative minimum tax paid and Iowa Alternative Minimum Tax Credits claimed. Section V will conclude this study.

## **II. Iowa Alternative Minimum Tax Credit**

The Iowa Alternative Minimum Tax Credit is considered an administrative tax credit because taxpayers become eligible to claim the credit after facing an Iowa alternative minimum tax levy in a prior tax year. The Iowa alternative minimum tax is imposed, for the most part, on the same tax preference items and adjustments on which federal alternative minimum tax is imposed. The Iowa alternative minimum tax for individual income taxpayers, as well as estates and trusts, is computed on the IA 6251. The Iowa alternative minimum tax for corporation income taxpayers is computed on the IA 4626 and the Iowa alternative minimum tax for franchise taxpayers is computed on the IA 4626F.

For all three tax types subject to the Iowa alternative minimum tax, the amount of tax is based on the “tentative alternative minimum tax”. The calculation of the tentative alternative minimum tax uses a broader measure of taxable income and a flat rate lower than the top marginal rate levied under each tax type. This ensures that the taxpayer will pay at least a minimum amount of tax on a wider definition of income. Only when the tentative alternative minimum tax exceeds the tax owed under the basic rates and brackets will a taxpayer owe the Iowa alternative minimum tax. The amount owed is the amount by which the tentative alternative minimum tax exceeds the basic tax.

The AMT is levied on income above an exemption amount that is a function of the tax type, and for individual taxpayers, the filing status.<sup>1</sup> These exemption amounts are not

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<sup>1</sup> The exemption is \$35,000 for taxpayers filing married jointly, \$17,500 for filing married separately as well as estates and trusts, and \$26,000 for single, head of household and qualifying widow filers. Banks and corporations are allowed a \$40,000 exemption. For all taxpayers, the exemption is reduced by 25 percent for each dollar where income exceeds another threshold, most commonly \$150,000.

indexed, so while the amounts were meant to target the AMT toward higher income taxpayers at the enactment of the tax, they no longer assure that is the case. The AMT Credit allows the tax code to offset AMT in certain cases. If a taxpayer becomes subject to the AMT in a single year because of a one-time occurrence of the covered adjustments or preferences, the AMT Credit would allow that taxpayer to eventually recover all of the taxes paid because of the odd occurrence. On the other hand, a taxpayer who regularly receives the covered adjustments or preferences would be regularly subject to the AMT and thus not be eligible to claim the AMT Credit.

Since tax year 1987, the amount of Iowa alternative minimum tax paid is eligible to be claimed as a tax credit in the following tax year or any subsequent year. In any given year, the Iowa AMT Credit cannot be claimed if the taxpayer owes Iowa alternative minimum tax. The Iowa AMT Credit is nonrefundable, which means claims cannot exceed the tax liability of the taxpayer. However, claims to the Iowa AMT Credit are even more restricted than other nonrefundable tax credits in that claims are limited to the amount that tax liability exceeds all "other nonrefundable" tax credits. In other words, the Alternative Minimum Tax Credit is the last nonrefundable tax credit applied against tax liability.

Although claims are fairly restricted, the credits do not expire, so they can be carried forward an indefinite number of years. However, if a taxpayer is always subject to the Iowa alternative minimum tax or does not have Iowa tax liability in any future year, tax credits will not be able to be used.

### **III. Alternative Minimum Tax Credits at the Federal Level and in Other States**

An Alternative Minimum Tax can be imposed against federal individual income tax as well as against estates, trusts, and corporations. Similar to Iowa, federal tax law allows for a nonrefundable tax credit equal to the AMT paid in prior tax years. The federal alternative minimum tax credit does not expire.

As of tax year 2014, there are six states, including Iowa, which have an alternative minimum tax that applies to individual income tax. Two of those states, Wisconsin and Minnesota, border Iowa. California, Colorado, and Connecticut also levy the tax against individual income tax. Five of those states offer an alternative minimum tax credit that can be claimed in subsequent tax years, Wisconsin is the only exception. Prior to 2011, there were three additional states, Rhode Island, Maine, and Nebraska, that imposed an alternative minimum tax and corresponding tax credit. However, Rhode Island eliminated its AMT beginning with the 2011 tax year and Maine followed suit in the subsequent tax year. Nebraska eliminated the AMT beginning with the 2014 tax year. It should also be noted that there are eight states that do not impose an income tax on individuals.

In 2014, there were also six states, including Iowa, which imposed an alternative minimum tax against corporation income tax (and franchise tax, where applicable).

While the number of the states is the same, only three states, California, Iowa, and Minnesota have the alternative minimum tax for both individuals and corporations. Two states that impose the AMT on corporations, Alaska and Florida, do not tax individual income. Maine is the only other state to levy an alternative minimum tax against corporations; Maine eliminated the AMT against individual income in 2012. All of the states allow an AMT Tax Credit to be claimed against corporation income tax in subsequent years.

#### **IV. Analysis of Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims**

In order to claim the Iowa Alternative Minimum Tax Credit, a taxpayer must have first paid the Iowa alternative minimum tax in a prior tax year. On average, \$13.2 million of Iowa alternative minimum tax has been paid each tax year between 2005 and 2013 (see Table 1). The amount of AMT paid each tax year is split between corporation income tax and individual income tax. On average, 46 percent of Iowa AMT liability is paid with the corporation income tax and 54 percent is paid with the individual income tax. An AMT is also assessed against banks subject to the Iowa franchise tax, but the historical data collected with regard to alternative minimum tax paid for that tax type is unreliable and so it is not included in Table 1.

Once a taxpayer has paid the Iowa alternative minimum tax, an Iowa Alternative Minimum Tax Credit equal to the tax paid can be claimed in subsequent tax years. On average, between 2006 and 2013, \$6.5 million in Alternative Minimum Tax Credits was claimed each tax year (see Table 2). The amount of tax credits that are being carried forward each year continues to grow due to the fact that the credit never expires. As of tax year 2013, the amount of tax credits being carried forward exceeded \$33.1 million. Tax credits claimed by banks against the franchise tax are more readily available than AMT paid, so those claims are included in Table 2. However, those claims have been combined with corporation income tax claims because of the low number of franchise tax credit claims, to avoid disclosing taxpayer information. The split between corporation income tax claims and individual income tax claims is very similar to the split between Iowa AMT paid for both of those tax types. On average, the split for Iowa AMT Credit claims is 47 percent made by corporation income taxpayers and 53 percent made by individual income taxpayers.

Between tax years 2006 and 2013, Iowa alternative minimum tax paid each year has exceeded the Iowa AMT Credits that have been claimed (see Table 3). In the aggregate, the tax credits claimed against individual and corporation income taxes offset on average 49 percent of the revenue raised by the Iowa AMT for the same tax types annually. The net revenue gain was the smallest in 2012 when the gain was below \$4 million. The largest net revenue gain was in 2009 when the gain was almost \$10 million. Between 2006 and 2013, the overall net gain exceeded \$50 million. While the annual net gain is a positive for State coffers, the alternative minimum tax increases

the contingent liabilities of the State as any AMT paid becomes available for taxpayers to claim as tax credits in future years.<sup>2</sup>

Given the idea that the AMT is to target higher income taxpayers who might otherwise avoid Iowa tax liability while the AMT Credit offsets that liability in later years when the taxpayer is no longer subject to the AMT. Therefore, it is of interest to compare the adjusted gross income of individual income taxpayers who paid AMT to the taxpayers who claim the AMT Credit in the same tax year. When comparing the percent of taxpayers by income group, both groups of taxpayers follow a similar pattern (see Figure 1). Recall that these are two different groups of taxpayers because if a taxpayer pays the Iowa alternative minimum tax in a given tax year, that taxpayer is ineligible to claim the Iowa AMT Credit in the same year for taxes paid in prior years. The highest percent of taxpayers for both groups have an Iowa adjusted gross income between \$75,000 and \$99,999.

A similar analysis was completed for corporation income taxpayer who paid AMT and the taxpayers who claimed the AMT Tax Credit (see Figure 2). While the distribution of taxpayers was quite different, once again those taxpayers paying AMT and claiming the AMT Tax Credit followed a similar pattern to each other.

## **V. Conclusion**

The Alternative Minimum Tax Credit has been in place for AMT paid during the last 26 tax years. Because the tax credit does not expire, the amount of tax credits that are being carried forward continues to accumulate. The amount being carried forward will likely continue to grow as the amount of AMT Tax Credits claimed average about half of the alternative minimum tax paid in a given year. While the contingent liability of this amount may be alarming, the likelihood of all of these carried forward credits being claimed is very low as there are some taxpayers who are required to pay AMT every year and will therefore never be able to use the AMT Tax Credits they have accumulated. This tax credit is most beneficial to those taxpayers who occasionally to rarely end up in a position of having to pay alternative minimum tax. It allows those taxpayers a chance to recoup the AMT paid.

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<sup>2</sup> The Alternative Minimum Tax Credit is not included in the Iowa Department of Revenue Contingent Liabilities Report for the State of Iowa because that report does not forecast administrative claims.

**Iowa's Alternative Minimum Tax Credit  
Tax Credits Program Evaluation Study  
Tables and Figures**

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**Table 1. Iowa Alternative Minimum Tax Paid by Tax Type, Tax Years 2005 - 2013**

| Tax Year | Corporation Income Tax |                | Individual Income Tax |                | Overall Total |
|----------|------------------------|----------------|-----------------------|----------------|---------------|
|          | Number of Businesses   | Total AMT Paid | Number of Households  | Total AMT Paid |               |
| 2005     | 321                    | \$7,506,473    | 10,249                | \$4,025,165    | \$11,531,638  |
| 2006     | 344                    | \$5,868,410    | 12,401                | \$5,037,450    | \$10,905,860  |
| 2007     | 369                    | \$4,772,688    | 15,139                | \$5,939,571    | \$10,712,259  |
| 2008     | 312                    | \$5,141,087    | 18,814                | \$8,199,145    | \$13,340,232  |
| 2009     | 256                    | \$5,223,652    | 17,347                | \$7,028,177    | \$12,251,829  |
| 2010     | 329                    | \$5,038,487    | 18,915                | \$6,828,833    | \$11,867,320  |
| 2011     | 313                    | \$4,369,336    | 21,839                | \$7,899,229    | \$12,268,565  |
| 2012     | 283                    | \$10,494,120   | 23,730                | \$9,326,077    | \$19,820,197  |
| 2013     | 288                    | \$5,804,175    | 25,689                | \$9,909,166    | \$15,713,341  |
| Average  | 313                    | \$6,024,270    | 18,236                | \$7,132,535    | \$13,156,805  |

Source: Iowa Department of Revenue, individual and corporation income tax returns

**Table 2. Iowa Alternative Minimum Tax Credit Claims by Tax Type, Tax Years 2006 - 2013**

| Tax Year | Corporation Income Tax & Franchise Tax* |                         |                       |                         | Individual Income Tax |                         |                       |                         | Overall Total Claimed |
|----------|---|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|
|          | Number of Claims                        | Total Credits Available | Total Credits Claimed | Credits Carried Forward | Number of Claims      | Total Credits Available | Total Credits Claimed | Credits Carried Forward |                       |
| 2006     | 93                                      | \$13,651,256            | \$3,072,334           | \$10,579,101            | 3,951                 | \$8,813,893             | \$1,655,679           | \$7,162,732             | \$4,728,013           |
| 2007     | 115                                     | \$11,696,928            | \$3,858,067           | \$7,838,861             | 5,562                 | \$6,494,726             | \$1,212,163           | \$5,283,024             | \$5,070,230           |
| 2008     | 119                                     | \$9,830,403             | \$2,962,253           | \$6,868,150             | 8,209                 | \$9,717,483             | \$1,795,095           | \$7,923,493             | \$4,757,348           |
| 2009     | 113                                     | \$10,026,292            | \$1,613,963           | \$8,412,329             | 10,345                | \$14,947,020            | \$2,115,593           | \$12,832,081            | \$3,729,556           |
| 2010     | 111                                     | \$11,480,061            | \$4,525,912           | \$7,424,764             | 12,228                | \$18,140,773            | \$2,414,036           | \$15,728,811            | \$6,939,948           |
| 2011     | 128                                     | \$9,831,235             | \$1,805,788           | \$8,026,089             | 13,742                | \$20,657,368            | \$2,876,849           | \$17,788,701            | \$4,682,637           |
| 2012     | 119                                     | \$8,334,903             | \$2,046,161           | \$6,288,742             | 14,807                | \$33,616,655            | \$6,433,847           | \$27,212,838            | \$8,480,008           |
| 2013     | 119                                     | \$11,200,321            | \$4,606,473           | \$6,520,722             | 15,654                | \$35,543,026            | \$8,933,407           | \$26,614,024            | \$13,539,880          |
| Average  | 115                                     | \$10,756,425            | \$3,061,369           | \$7,744,845             | 10,562                | \$18,491,368            | \$3,429,584           | \$15,068,213            | \$6,490,953           |

\*To avoid disclosing franchise taxpayer data due to small numbers, franchise tax numbers have been combined with corporation income tax numbers.

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule

**Table 3. Difference Between Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims, Tax Years 2006 - 2013**

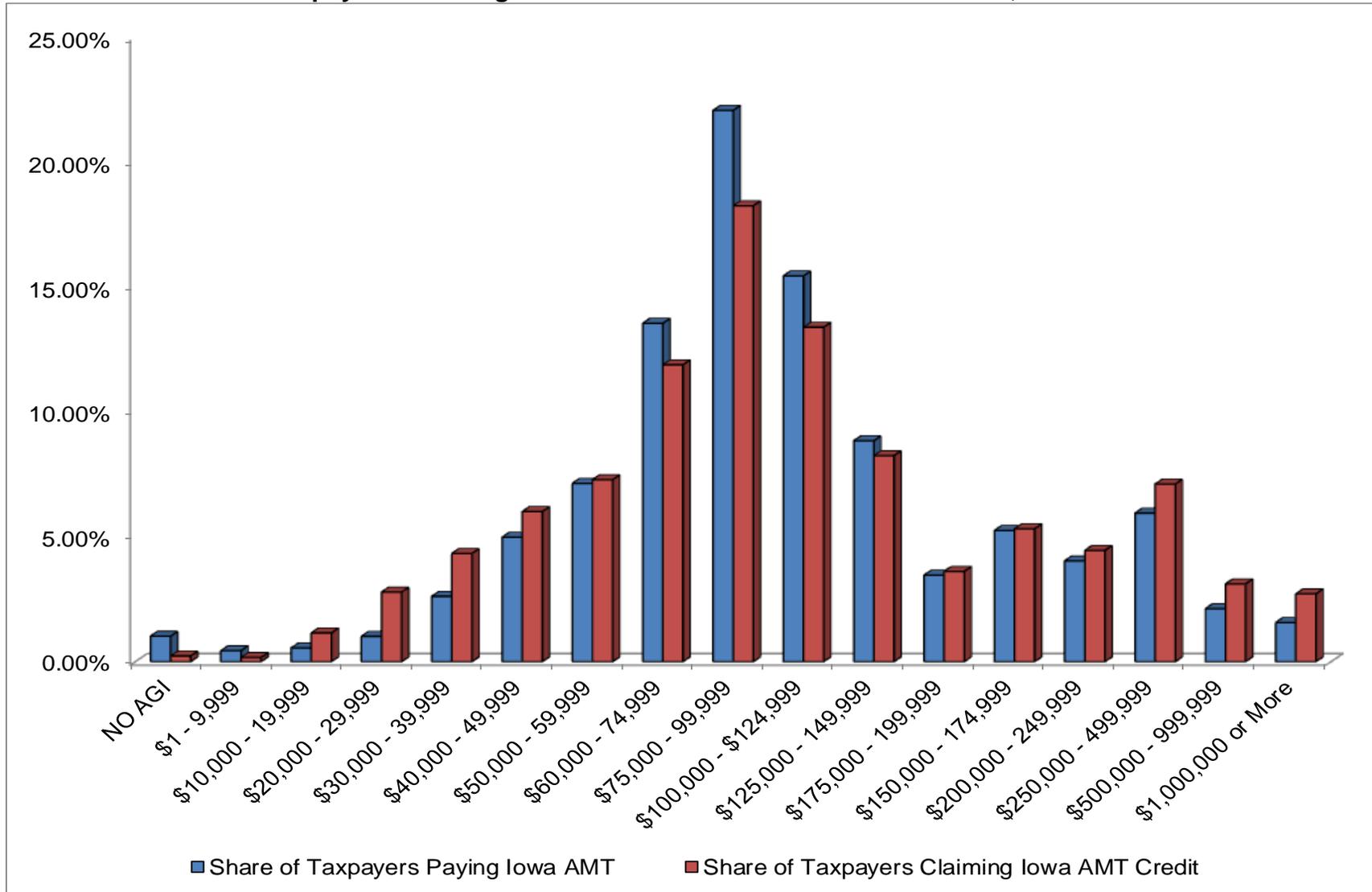
| Tax Year | Total Iowa Alternative Minimum Tax Paid | Total Iowa Alternative Minimum Tax Credit Claims | Net Corporation Income Taxes Collected | Net Individual Income Taxes Collected | Total Net Taxes Collected | Iowa AMT Credits as a Percentage of Iowa AMT Paid |
|----------|---|--|--|---------------------------------------|---------------------------|---|
| 2006     | \$10,905,860                            | \$4,728,013                                      | \$2,796,076                            | \$3,381,771                           | \$6,177,847               | 43.35%  |
| 2007     | \$10,712,259                            | \$5,070,230                                      | \$914,621                              | \$4,727,408                           | \$5,642,029               | 47.33%  |
| 2008     | \$13,340,232                            | \$4,757,348                                      | \$2,178,834                            | \$6,404,050                           | \$8,582,884               | 35.66%  |
| 2009     | \$12,251,829                            | \$3,729,556                                      | \$3,609,689                            | \$4,912,584                           | \$8,522,273               | 30.44%  |
| 2010     | \$11,867,320                            | \$6,939,948                                      | \$512,575                              | \$4,414,797                           | \$4,927,372               | 58.48%  |
| 2011     | \$12,268,565                            | \$4,682,637                                      | \$2,563,548                            | \$5,022,380                           | \$7,585,928               | 38.17%  |
| 2012     | \$19,820,197                            | \$8,480,008                                      | \$8,447,959                            | \$2,892,230                           | \$11,340,189              | 42.78%  |
| 2013*    | \$15,713,341                            | \$13,539,880                                     | \$1,197,702                            | \$975,759                             | \$2,173,461               | 86.17%  |
| Total    | \$106,879,603                           | \$51,927,620                                     | \$22,221,004                           | \$32,730,979                          | \$54,951,983              | 48.59%  |
| Average  | \$13,359,950                            | \$6,490,953                                      | \$2,777,626                            | \$4,091,372                           | \$6,868,998               | 48.59%  |

\*Tax Year incomplete

Source: Iowa Department of Revenue, individual and corporation income tax returns and IA 148 Tax Credit Schedule

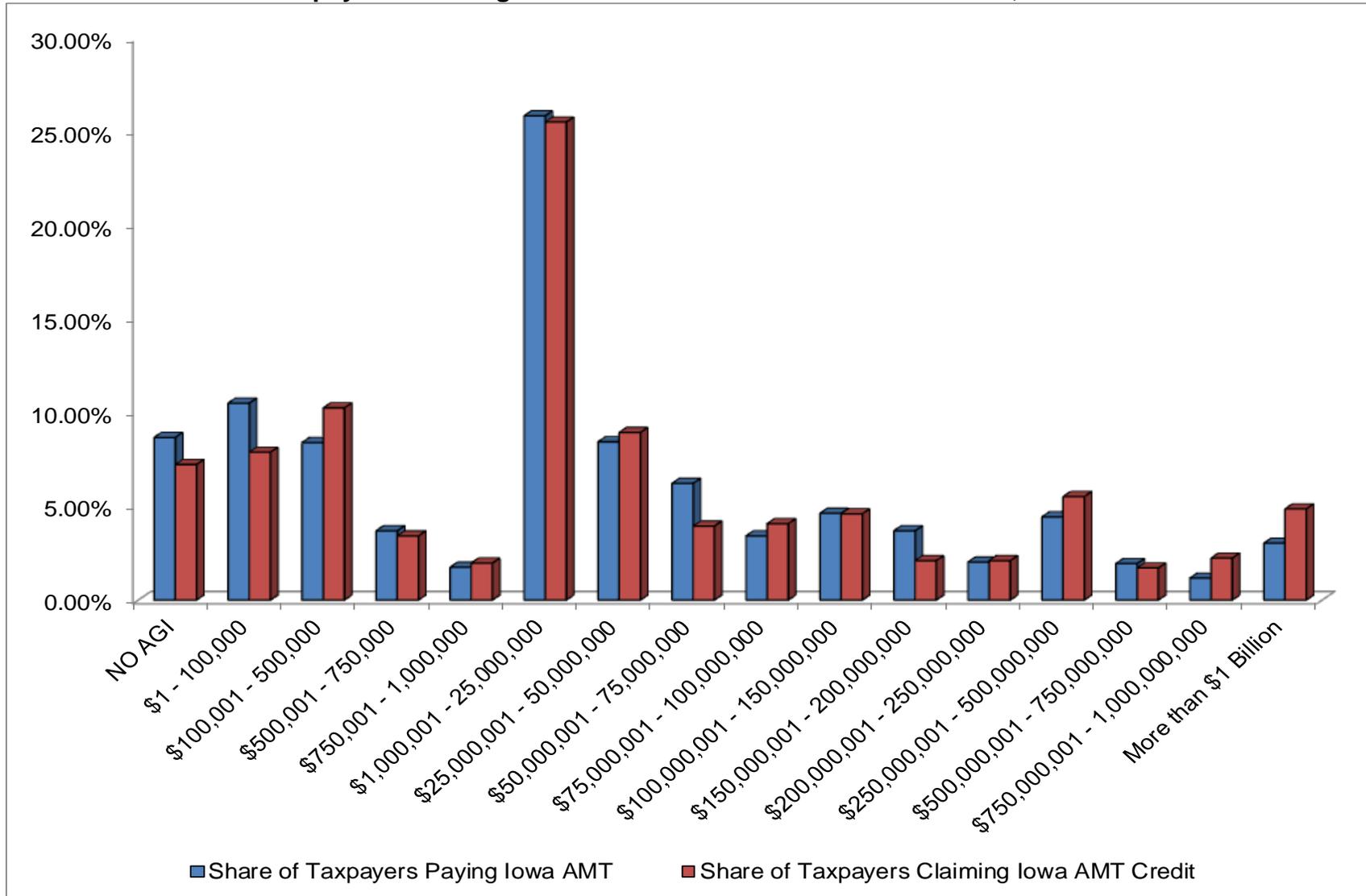
Note: Only includes individual and corporation income taxes paid and credits claimed.

**Figure 1. Average Distribution by Adjusted Gross Income of Individual Income Taxpayers Paying Iowa Alternative Minimum Tax Versus Taxpayers Claiming the Iowa Alternative Minimum Tax Credit, Tax Years 2006-2013**



Source: Iowa Department of Revenue

**Figure 2. Average Distribution by Federal Net Income of Corporation Income Taxpayers Paying Iowa Alternative Minimum Tax Versus Taxpayers Claiming the Iowa Alternative Minimum Tax Credit, Tax Years 2006-2013**



Source: Iowa Department of Revenue