Effects of the Corporate Alternative Minimum Tax: An Overview of Tax Years 1990 and 1991

Patrice Treubert and Amy Gill, Internal Revenue Service

The Tax Reform Act of 1986 was signed into law by President Reagan on October 22, 1986. The Tax Reform Act of 1986 (TRA) intended, among other things, to halt the declining share of Federal income tax that was paid by corporations [1]. The Alternative Minimum Tax (AMT) was created to ensure that all corporations with some type of economic income pay a minimum amount of tax, regardless of their allowable use of deductions, credits, and exclusions.

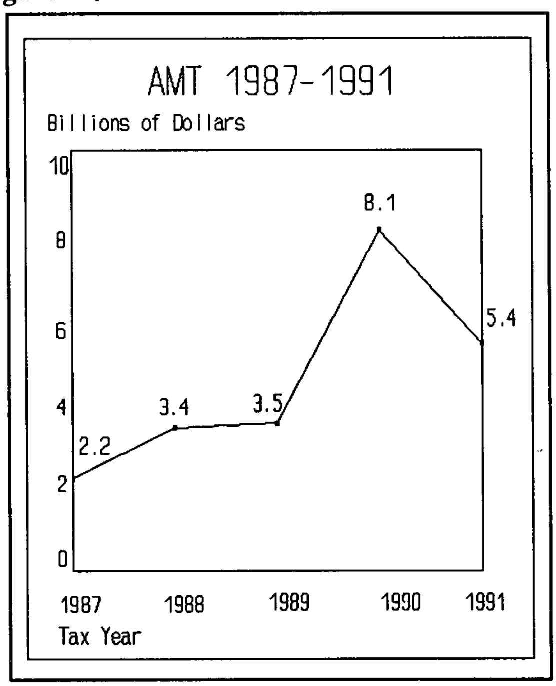
Before TRA, the computation of minimum tax for corporations was basically an add-on tax equal to 15 percent of net tax preferences minus regular tax. The add-on tax did not sufficiently solve the problem of tax avoidance for two reasons: first, the add-on-tax did not define a comprehensive income base and, second, it did not approach the measurement of economic income [2].

The Corporate AMT was modeled after the individual AMT, which has been in effect since 1979. Some of the basic features are the following:

- A tentative minimum tax of 20 percent imposed on the corporation's Alternative Minimum Taxable Income (AMTI) after certain exemptions;
- AMTI is defined as the taxpayer's taxable income with certain preference and adjustment items added back and a book income or Adjusted Current Earnings (ACE) adjustment added;
- The book income adjustment was used for Tax Years 1987-1989. Once the company's adjusted net book income has been ascertained, 50 percent of this excess over AMTI is added to AMTI; and
- In Tax Year 1990, the adjusted net book income is replaced by ACE. ACE is a hybrid account with features resembling both traditional earnings and profits and taxable income. AMTI is increased by 75 percent of the excess of a corporation's ACE over its AMTI. Subject to certain limits, the ACE adjustment can reduce AMTI, if AMTI exceeds ACE.

Tax Years 1987, 1988 and 1989 are very similar in the amount of AMT reported, \$2.2 billion, \$3.4 billion, and \$3.5 billion, respectively (see Figure 1). Tax Years 1987 through 1989, as a whole, show that \$9.1 billion dollars in AMT were reported. Over a third of the AMT reported was from the Manufacturing Division. The Finance, Insurance, and Real Estate Division paid 24 percent of AMT for these years and the Transportation and Public Utilities Division paid 19 percent of AMT. The amount of AMT reported in these years was quite stable.

Figure 1

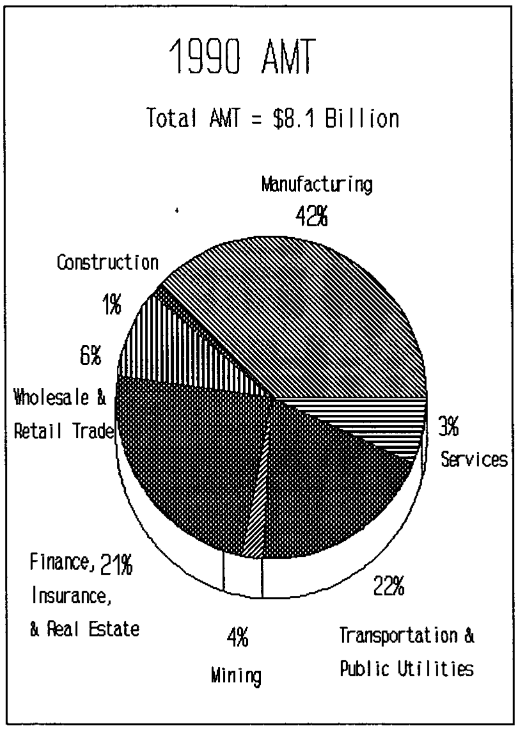


Tax Year 1990 shows a very large increase in the amount of AMT reported, at \$8.1 billion. Preliminary data for 1991 indicate that the amount of AMT reported dropped to \$5.4 billion. Since Tax Years 1987 through 1989 have been discussed in detail in previous publications by the authors [3], Tax Year 1990 and its comparison to 1991 data are the focus of this paper. The analysis concentrates on what types of taxpayers, in terms of industrial division and size, have paid the most AMT.

■ AMT in Tax Year 1990

While $9.1 billion dollars were collected in Tax Years 1987-1989, almost that much, $8.1 billion dollars, was collected in Tax Year 1990, alone. Manufacturing reported the largest share of AMT, $3.4 billion,about 42 percent. (See Figure 2). Transportation and Public Utilities reported the second largest amount, $1.8 billion, with Finance, Insurance, and Real Estate nearly equal, reporting $1.7 billion.

Figure 2



Taxpayers in the Manufacturing Division paid close to half of AMT reported for 1990: AMT reported by Manufacturing in 1990 was $3.4 billion. By far, the major group within Manufacturing reporting the most AMT was Motor Vehicles and Equipment, which reported $936.7 million. In fact, this was the largest AMT reporting from any industrial group. Petroleum and Coal Products also paid a large amount of AMT, $793.2 million. The next two largest reporters within the Manufacturing Division, respectively, were Chemicals and Allied Products ($469.3 million/14 percent) and Non-Electrical Machinery ($318.8 million/9 percent).

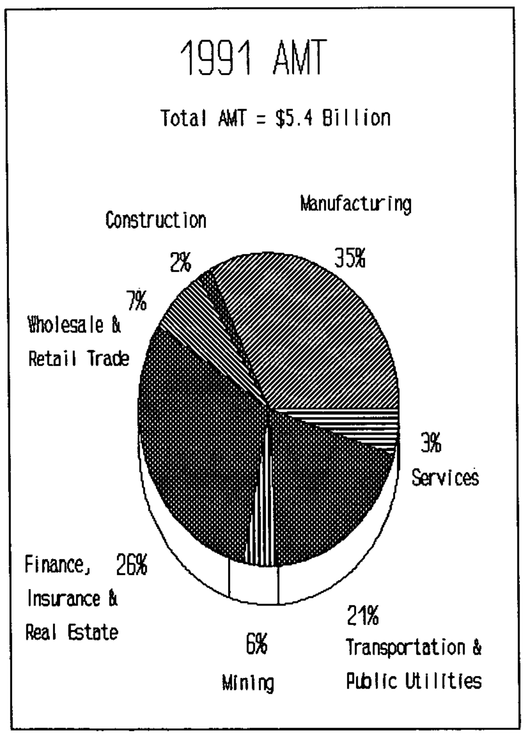
The Transportation and Public Utilities Division, composed of three major groups, had the second largest amount of AMT in 1990, $1.8 billion. Electrical, Gas and Sanitary Services reported almost half of AMT within this division, $788.6 million. The Communication group reported about a third of AMT for this division, $584.1 million, and the Transportation Industrial group reported $437.7 million, about 24 percent.

The Finance, Insurance, and Real Estate Division reported $1.7 billion in AMT in 1990. The Insurance group paid over half of AMT for this division, $886.7 million. Banking paid the second largest amount, $454.4 million, which was about 27 percent of AMT.

■ AMT in Tax Year 1991 as Compared to Tax Year 1990

Total AMT reported for preliminary 1991 data (see Data Characteristics section) was $5.4 billion, a drop of $2.7 billion from 1990. Manufacturing's share of AMT dropped from 42 percent to 35 percent (see Figure 3). The amounts of AMT reported by the Transportation and Public Utilities and the Finance, Insur-

Figure 3



ance, and Real Estate Divisions dropped from 1990 to 1991. However, their share of AMT remained similar to 1990 percentages.

Of the $2.7 billion drop in AMT reported, $1.5 billion came from the Manufacturing Division. This division reported $1.9 billion dollars in AMT in 1991, as compared to the amount of $3.4 billion in 1990. Unlike the 1990 figures, no individual Manufacturing group claimed a large piece of AMT for this division. Five major groups, Paper and Allied Products, Chemicals and Allied Products, Petroleum and Coal Products, Non-electrical Machinery, and Electrical and Electronic Equipment each reported between 11 and 13 percent of AMT for Manufacturing. Three of these five groups showed a decrease in the amount of AMT reported. However, Paper and Allied Products reported $248.4 million of AMT, an increase of $86.8 million from 1990. Electrical and Electronic Equipment reported $212.0 million of AMT, up from $153.9 million in 1990. Missing as a large AMT reporter is Motor Vehicles and Equipment, which paid $30.9 million in AMT, compared to $936.7 million in 1990.

The Transportation and Public Utilities had a much smaller drop in AMT, $675.6 million, from $1.8 billion in 1990 to $1.1 billion in 1991. The Communication group had the largest drop, $299.7 million, from $584.1 million in 1990 to $284.4 million in 1991. Transportation reported $211.9 million of AMT, a drop of $225.8 million. Due to the larger drops from these two groups, Electrical, Gas, and Sanitary Services' proportion of AMT for this division rose from 44 percent to 56 percent, even though the amount of AMT it reported fell from $788.6 million to $638.2 million.

The amount of AMT reported by the Finance, Insurance, and Real Estate Division dropped from $1.7 billion in 1990 to $1.4 billion in 1991. This $292.5 million drop was the smallest drop of the three largest reporting industrial divisions of AMT. The amount of AMT reported by Banking fell from $454.4 million to $323.5 million. Insurance had a smaller drop, from $886.7 million to $787.4 million.

In summary, the total drop of AMT reported between 1990 and 1991 was $2.7 billion. Manufacturing's decrease was responsible for over half of the overall decrease. Of any industrial group, Motor Vehicles and Equipment showed the largest decrease, $905.7 million, about a third of the total drop in AMT. The other two industrial divisions both showed decreases in AMT, although these were smaller than Manufacturing's.

■ A Closer Look

For Tax Year 1990, there were 12,780 returns that showed no taxable income, yet paid almost a quarter of AMT ($2.0 billion) (see Figure 4). Nearly all tax paid by these companies was the AMT. Without the AMT, these companies would have had minimal tax liability. In contrast, companies with income subject to tax over $40 million paid the most AMT of any other income-subject-to-tax category, reporting $4.4 billion

Figure 4

Tax Year 1990:
Ratio of AMT to Total Tax for AMT Reporters

Income Subject to Tax	Item	Amount
$0	AMT	$1,968.3
	Ratio of AMT to Total Tax	100%
	Number of Returns	12,780
	Total Assets	$1,557,994.1
$0 - $2 Million	AMT	$456.8
	Ratio of AMT to Total Tax	50%
	Number of Returns	14,782
	Total Assets	$356,943.5
$2,000,001 - $10 Million	AMT	$464.4
	Ratio of AMT to Total Tax	38%
	Number of Returns	4,472
	Total Assets	$239,759.5
$10,000,001 - $20 Million	AMT	$296.8
	Ratio of AMT to Total Tax	43%
	Number of Returns	136
	Total Assets	$189,761.3
$20,000,001 - $40 Million	AMT	$491.5
	Ratio of AMT to Total Tax	51%
	Number of Returns	87
	Total Assets	$240,065.9
$40,000,001 or greater	AMT	$4,426.4
	Ratio of AMT to Total Tax	30%
	Number of Returns	205
	Total Assets	$3,785,387.5

Total Assets (AMT Reporters): $6,369,912.0
Total Assets (All Returns): $18,190,057.6
Note: Dollar Amounts of AMT and Total Assets are in Millions. Total Tax is the Total Tax Settlement.

in AMT, over half of the entire AMT reported. However, only 30 percent of their tax bill was from the AMT; these companies would have reported some type of tax, even if the AMT had not existed. But, looking at 1990 as a whole, AMT payment was a higher percentage of total taxes for companies who paid AMT in 1990 than in any prior year of the tax [4].

A particular target of the AMT has been companies who report no taxable income to the IRS, yet report a positive book income to their shareholders. How has the AMT affected this group of taxpayers? Using the 1990 corporate file, it is possible to look only at nonconsolidated returns, because a positive foreign income on consolidated returns could offset zero or negative income from a domestic parent, giving the illusion of positive domestic book income. In 1990, there are 8,010 nonconsolidated returns who reported AMT and had income-subject-to-tax of zero. Over half of these returns, 5,645 returns, reported a positive book income, while having a zero or negative taxable income. These companies paid a total of $144.3 million in AMT. It should be noted that this is a very small group of AMT taxpayers. These 8,010 nonconsolidated corporations accounted for only 2 percent of total assets of companies with AMT liabilities. However, companies with positive book incomes and no taxable income are paying AMT, as was intended by taxpayers.

For all returns reporting AMT for Tax Years 1989 through 1991, Figure 5 shows the consistently largest adjustments and preferences items. In Tax Year 1989, the depreciation of tangible property placed in service after 1986 (hereafter called "the depreciation adjustment") and the net book income adjustment contributed almost equally to the increase of the AMT income base of taxable income before NOLD (Net Operating Loss Deduction). When taken as a percentage of taxable income before NOLD, the depreciation adjustment increased AMT income by 27 percent and the net book income adjustment contributed 22 percent (see Figure 5). In Tax Year 1990, the ACE adjustment accounted for almost half of the increase to the AMT income base, whereas the depreciation adjustment only contributed one quarter. For preliminary 1991 Tax Year data, the depreciation adjustment's and the ACE adjustment's increase to the AMT income base was almost equal again.

Figure 5

Selected Adjustments and Preferences as a Percentage of Regular Taxable Income before NOLD for Returns where Alternative Minimum Tax is Present[1]

	Tax Year		
	1989	1990	1991[2]
Total adjustments	27.1%	26.1%	30.3%
Depreciation Adjustments[3]	26.8	28.1	32.1
Total preferences	4.8	2.7	2.7
Depletion	3.7	1.4	1.3
Book income or ACE Adjustments[4]	21.6	48.9	36.3

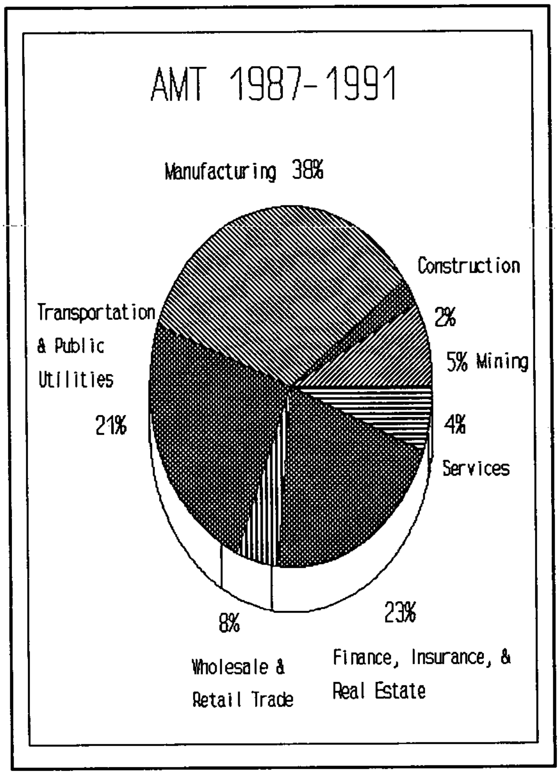
[1]Similar table available in a 1992 Department of Treasury Paper by Gerardi, Milner, and Silverstein.
[2]Based on 1991 preliminary data.
[3]Percentage can exceed total adjustments' percentage since negative adjustments are allowable.
[4]Only positive book income or ACE used to compute percentage.
Book income was used for Tax Years prior to 1990.

In Tax Year 1990, the net book income adjustment was replaced with the ACE adjustment. If 75 percent of the ACE adjustment exceeded the sum of taxable income before NOLD plus all other preference and adjustment items, it was included in the AMT income base. Prior to 1989, only 50 percent of the net book income adjustment could be included in the AMT income (if it exceeded the summed items). Also, the ACE computation for depreciation of assets acquired prior to 1990 is likely to contribute most to the ACE depreciation preference during the first year of ACE. Therefore, since Tax Year 1990 was a low net profit year and ACE caused more AMT income to be reported than in other Tax Years studied, AMT liability peaked in Tax Year 1990.

■ Analysis of Five Years of AMT

To summarize the five years of AMT reporting as a whole, the Manufacturing Division has reported the largest amount of AMT, about 38 percent (see Figure 6). The Transportation and Public Utilities and the Finance, Insurance, and Real Estate Divisions have been the second and third largest reporters, with 21 percent and 23 percent, respectively.

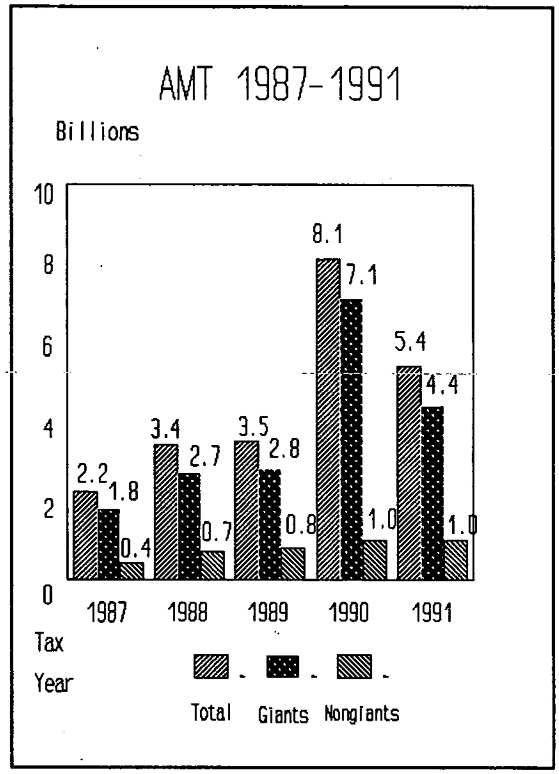
Figure 6



The number of AMT reporters had risen from 1987 to 1990, with the largest leap in nongiant companies from 1989 to 1990. A giant company, as described in this context, is any company with more than $250 million in total assets. In a panel study conducted by the Treasury Department's Office of Tax Analysis, using 1987 through 1990 data, it was found that the increase in AMT liability in 1990 resulted from new payers, as well as those who had paid the tax in past years [5]. The total number of returns reporting AMT rose slightly from 1990 to 1991, from 32,462 to 33,018. The number of giant companies with AMT liability rose more slowly and dropped from 1990 to 1991, from about 1,300 to about 1,200.

A breakdown of AMT reporters by giants and nongiants shows that consistently, giants pay the largest amount of AMT for any given Tax Year (see Figure 7). Though giants only made up about 4 percent of AMT reporters, they have reported 82 percent of the tax. Therefore, although the greatest number of AMT reporters is nongiant companies, the largest

Figure 7



amounts of AMT are reported by the largest companies, in terms of assets. Again, it seems whether it is in terms of assets or taxable income, the largest companies, though smaller in numbers, report the largest amount of AMT.

■ Conclusion

In conclusion, the three industrial divisions which paid the most AMT in the last five years are, respectively, Manufacturing, Transportation and Public Utilities and Finance, Insurance, and Real Estate. For Tax Year 1990, 12,780 returns with no taxable income reported almost a quarter of AMT. Reporting of AMT peaked in Tax Year 1990; advanced data for 1991 indicate a drop in AMT reporting of almost three billion dollars. The ACE adjustment was almost half of the regular taxable income before NOLD in 1990; this was larger than any other tax year. Giant companies, whether in terms of assets or income, have reported the bulk of AMT in the last five years.

■ Data Characteristics

All data presented are from the Statistics of Income's corporate files. The 1987-1990 data are final; these data are based on four stratified random samples of approximately 80,000 corporate tax returns for 1987-1990. Each year of data includes accounting periods ending July of the current year through June of the next year.

The 1991 data are from a preliminary advance data file. The advance data file is comprised of about 75 percent of records that are in the final file. The returns in the advance data file are assigned larger weights than those assigned to the final file. This is to account for the returns that are not yet included in the file at the time of the earlier cut-off. Also, to ensure good estimates for advance data, there are certain large corporations identified as critical that have such an impact on estimates that information from them is sought through a short survey, if they are not sampled by the cut-off date. Since the 1991 data presented here are preliminary, these numbers are estimates based on a smaller sample and therefore may change. Statistics of Income plans to release the complete file of 1991 data in March of 1994.

■ Acknowledgments

Thanks to Kathleen Walker and Connie Carney for their help with producing data and to the management of the Corporation Branch for their support. Special thanks to Gerald Silverstein for his technical assistance, insight, and suggestions.

■ Endnotes

[1] "Congress Enacts Sweeping Overhaul of Tax Law," *1986 Congressional Quarterly Almanac*, p. 491.

[2] U.S. House of Representatives, Tax Reform Act of 1986, Conference Report to Accompany H.R. 3838, U.S. Government Printing Office, 1986, p.519.

[3] Treubert, Patrice and Amy Pavelko (1990). "The Alternative Minimum Tax: An Analysis of Its Effects on Corporations in 1987," *1990 American Statistical Association Proceedings, Section on Survey Research Methods.*

[4] Gerardi, Geraldine, Hudson Milner, and Gerald Silverstein (1992). "Temporal Aspects of the Corporate Alternative Minimum Tax: Results from the Corporate Panel Data for 1987-1990," *Proceedings of the Eighty-Fifth Annual Conference (1992),* National Tax Association.

[5] Ibid. ■