

# Corporate Alternative Minimum Tax, 1987-1990

Data Release

**T**he corporate alternative minimum tax (AMT) was designed to ensure that all corporations with substantial amounts of "economic income" would pay a minimal amount of tax, regardless of their allowable use of exclusions, deductions and credits. The AMT provides a formula for tax computation which, in effect, ignores certain preferential tax treatments that are allowed in figuring the regular income tax. By eliminating these preferential deductions and credits, a tax liability is created for a corporation that would otherwise pay little or no tax.

The total AMT reported by corporations for Tax Years 1987 through 1990 was \$17.2 billion [1]. The amount of AMT increased each year over this 4-year period. Tax Year 1990 accounted for the largest amount of AMT, \$8.1 billion, or 47 percent of the total [2]. The AMT for 1990 represented a large increase over the \$3.5 billion reported for 1989. In contrast, the amounts reported for 1987 and 1988 were \$2.2 billion and \$3.4 billion, respectively.

The number of corporation income tax returns that reported AMT increased each year over the 4 years, from 17,370 for 1987 to 32,462 for 1990. Although "giant" companies, i.e., those with total assets of \$250 million or more, tended to report most of the tax, "non-giants" fueled the rise in the number of payers, from 16,427 for 1987 to 31,138 for 1990. The rate of increase in the number of giant companies which reported AMT was slower, from 943 for 1987 to 1,324 for 1990.

Although giant companies accounted for only 4 percent of the number of returns with AMT between 1987 and 1990, they reported 83 percent of the AMT for these 4 years. For 1990, these companies reported \$7.1 billion of AMT, approximately 87 percent of the total AMT for that year. This was the largest percentage of the total reported by giant companies over the 4 years. Among giant companies with AMT, the 372 companies with total assets of \$2 billion or more accounted for 73 percent of the AMT reported by all companies for 1990.

## Industry Characteristics

Looking at AMT reported by corporations on an industrial basis, the following three industrial divisions are of primary importance: manufacturing; finance, insurance and real estate; and transportation and public utilities.

*This data release is based on a paper presented at the 1992 National Tax Association meetings by Amy Gill, an economist with the Corporation Special Projects Section, and Patrice Treubert, an economist with the Corporation Returns Analysis Section, both under the direction of Karen Cys, Chief, Corporation Statistics Branch.*

Tables 1-4 present statistics on AMT and related items for 1987-1990 by industrial divisions.

Manufacturers comprised the largest amount of AMT over the 1987-1990 period, with \$6.8 billion, or 40 percent of the total. For 1990, corporations whose major source of receipts was from the manufacture of motor vehicles and equipment reported the largest amount of AMT in this industrial division [3]. Previously, petroleum and coal products companies (for 1988 and 1989) and nonelectrical machinery companies (for 1987) reported the largest AMT for manufacturers.

Finance, insurance and real estate accounted for 23 percent of the total AMT reported over the 1987-1990 period. During this time, banks and insurance companies switched places as the predominant major industry based on AMT. For 1990, insurance companies reported almost twice as much AMT as banks.

Transportation companies and public utilities comprised 20 percent of the AMT reported by all companies during the 1987-1990 period. For each of the 4 years, companies classified in the electric, gas and sanitary services industry group accounted for the largest amount of AMT. However, over the 4-year period, communications companies steadily increased their share of the total AMT. Thus, for 1990, of the \$1.8 billion of AMT reported for the transportation and public utilities industrial division, \$0.8 billion was from electric, gas and sanitary services and \$0.6 billion was from communications.

## Computation of the Alternative Minimum Tax

Corporations (other than S Corporations which are taxed through their shareholders) were liable for the AMT if their tax base for purposes of the regular income tax (before subtraction of the "net operating loss deduction," or NOLD), when combined with certain adjustments and "tax preference" items, exceeded the lesser of \$40,000 or an allowable exemption amount. Under the Tax Reform Act of 1986, to compute the AMT, adjustments were made to the income subject to regular tax, i.e., "taxable income," computed before NOLD. These adjustment items could either increase or decrease the income subject to regular tax, as derived for the computation of AMT. They were designed to eliminate the acceleration of deductions allowed in figuring regular tax and reflected the difference in treatment of certain items under the regular tax system versus the treatment under the AMT system. In some cases, the differences resulted in negative amounts.

Tax preference items, which typically express more permanent differences between the regular tax system and the AMT system, were also added to the income base of

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the AMT. In addition, for Tax Years 1987-1989, there was a book income adjustment in deriving the income base of the AMT. For Tax Year 1990, the book income adjustment was replaced by an adjusted current earnings adjustment, the so-called ACE adjustment. The book income and ACE adjustments were designed to ensure that corporations reporting large earnings to investors pay some tax. The sum of income subject to regular tax before NOLD, the other adjustment items and the preference items first was compared to either the net book income or adjusted current earnings computed for AMT purposes, and the difference multiplied by 50 percent for the net book income calculation and 75 percent for the ACE calculation. The result was the net book income or ACE adjustment. Thus, the income subject to regular tax before NOLD combined with the adjustment items, including the book income adjustment or the adjusted current earnings adjustment, and the tax preference items, equaled "alternative minimum taxable income," or AMTI, before alternative tax NOLD.

Taxable income before NOLD and the book income or adjusted current earnings adjustment were consistently the largest components of AMTI before alternative tax NOLD. Of the tax preference items and the remaining adjustments, the depreciation of tangible property placed in service after 1986 was noticeably larger than any other adjustment or preference item.

AMTI before alternative tax NOLD could be reduced by an alternative tax NOLD and an income exemption amount. The exemption amount was \$40,000 minus 25 percent of AMTI in excess of \$150,000; the exemption was phased out when AMTI exceeded \$310,000. ("Controlled groups" of corporations were required to use a single exemption for the group, even if they filed separate returns for each member.) By applying a 20 percent tax rate to the resulting amount, the "tentative minimum tax" was determined.

The tentative minimum tax could be reduced by an AMT foreign tax credit. The amount by which the remaining tentative minimum tax exceeded the regular tax

after reduction by the foreign tax credit (under the regular system) and the U.S. possessions tax credit was the alternative minimum tax (AMT) for the year [4]. However, AMT could then be further reduced by the investment credit.

### Notes and References

- [1] Tax Year 1990 represents corporate accounting periods ended July 1990 through June 1991. Tax Years 1987 through 1989 are similarly defined. The AMT, introduced by the Tax Reform Act of 1986, was for the most part first effective with corporate accounting periods ended December 1987. Therefore, for the purpose of these tables, for Tax Year 1987, only returns with accounting periods ended December 1987 through June 1988 are included in the data.
- [2] Data for Tax Years 1987 and 1990 are revised. Earlier versions of the 1987 data were published in various Statistics of Income publications. Preliminary 1990 data were presented in a paper at the 1992 National Tax Association meetings.
- [3] For the statistics, returns are classified in a particular industry group based on the principal business activity (i.e., the activity which accounted for the largest portion of total receipts) of the corporation filing the return. However, a given return may have been for a company engaged in several business activities or may have been a consolidated return filed for an affiliated group of corporations which conducted different business activities. To this extent, the data presented here are not entirely related to the industrial activity under which they are shown.
- [4] For a more detailed explanation of the alternative minimum tax, and descriptions of the sample on which the statistics were based and of the sampling variability of the estimates, see *Statistics of Income—Corporation Income Tax Returns*, for the appropriate year.

**Table 1.--Returns with Alternative Minimum Tax: Selected Items by Industrial Division, Tax Year 1987**

[All figures are estimates based on samples--money amounts are in millions of dollars]

Item	Industrial division								
	All industrial divisions	Agriculture, forestry and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance and real estate	Services <sup>1</sup>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns.....	17,370	295	905	2,884	2,591	1,086	2,667	4,962	1,980
Total assets.....	3,457,170	2,236	57,367	24,230	745,929	283,595	127,496	2,150,698	65,618
Net income (less deficit).....	41,846	121	1,636	670	18,452	4,741	2,767	11,790	1,670
Taxable income (or loss) before net operating loss deduction.....	35,559	103	1,485	624	15,017	4,436	2,179	10,345	1,370
<b>Adjustment items:</b>									
Total.....	5,072	31	135	672	2,144	586	338	604	562
Depreciation of property placed in service after 1986.....	3,283	11	64	48	1,416	539	337	380	489
Amortization of certified pollution control facilities placed in service after 1986.....	-12	--	--	--	( <sup>2</sup> )	( <sup>2</sup> )	--	12	--
Amortization of mining exploration and development costs paid or incurred after 1986.....	148	--	63	3	75	6	1	( <sup>2</sup> )	--
Circulation expenses.....	( <sup>2</sup> )	--	--	--	--	--	--	( <sup>2</sup> )	--
Basis adjustment.....	-39	( <sup>2</sup> )	-1	( <sup>2</sup> )	-16	7	-4	6	-6
Long-term contracts entered into after February 28, 1986.....	1,244	1	6	632	527	7	24	27	21
Installment sales of certain property.....	247	3	--	-20	128	16	-35	139	16
Merchant marine capital construction funds.....	33	17	--	--	11	5	--	--	--
Section 833(b) deduction.....	14	--	--	--	--	--	--	14	--
Tax shelter farm activity loss.....	22	--	--	--	( <sup>2</sup> )	16	--	--	6
Passive activity loss.....	139	( <sup>2</sup> )	3	8	4	2	16	62	43
Certain loss limitations.....	-2	--	( <sup>2</sup> )	-1	-1	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	--
<b>Tax preference items:</b>									
Total.....	2,081	1	580	23	835	194	100	325	24
Depletion.....	1,116	( <sup>2</sup> )	506	11	493	84	18	5	( <sup>2</sup> )
Tax-exempt interest from private activity bonds issued after August 7, 1986.....	28	( <sup>2</sup> )	--	1	3	( <sup>2</sup> )	1	24	( <sup>2</sup> )
Appreciated property charitable deduction.....	40	--	1	( <sup>2</sup> )	4	6	( <sup>2</sup> )	28	( <sup>2</sup> )
Intangible drilling costs.....	204	( <sup>2</sup> )	54	( <sup>2</sup> )	53	42	34	20	( <sup>2</sup> )
Reserves for losses on bad debts of financial institutions.....	75	--	11	--	1	--	( <sup>2</sup> )	63	--
Accelerated depreciation of real property placed in service before 1987.....	590	( <sup>2</sup> )	6	11	274	47	47	182	23
Accelerated depreciation of leased personal property placed in service before 1987.....	8	--	2	( <sup>2</sup> )	3	1	( <sup>2</sup> )	2	( <sup>2</sup> )
Amortization of certified pollution control facilities placed in service before 1987.....	18	--	--	--	5	14	--	--	--
Adjusted net book income (less deficit).....	69,953	179	1,867	785	27,302	13,410	3,893	19,787	2,731
Alternative tax net operating loss deduction.....	24,231	77	1,121	570	7,558	2,391	1,516	9,824	1,173
Alternative minimum tax foreign tax credit.....	2,554	1	137	3	2,084	68	33	176	52
Tentative minimum tax.....	4,884	16	153	165	1,311	1,376	391	1,249	224
Alternative minimum tax.....	2,228	7	91	91	712	483	140	595	109

<sup>1</sup>Includes "Nature of business not allocable."<sup>2</sup>Less than \$500,000.<sup>3</sup>Deduction allowed certain health insurance organizations was disregarded for alternative minimum tax purposes.

NOTE: Detail may not add to totals because of rounding.

**Table 2.--Returns with Alternative Minimum Tax: Selected Items by Industrial Division, Tax Year 1988**

(All figures are estimates based on samples - money amounts are in millions of dollars)

Item	All industrial divisions	Industrial division							
		Agriculture, forestry and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance and real estate	Services <sup>1</sup>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns.....	25,197	848	918	4,663	4,488	1,795	3,323	5,585	3,577
Total assets.....	3,807,582	5,001	146,282	28,464	808,479	325,722	137,363	2,262,330	93,941
Net income (less deficit).....	60,631	243	4,008	1,395	32,524	4,747	2,395	13,100	2,219
Taxable income or loss before net operating loss deduction.....	56,257	235	3,860	1,036	30,011	4,542	2,243	12,162	2,167
<b>Adjustment items:</b>									
Total.....	9,300	50	556	687	3,253	1,609	829	1,272	1,043
Depreciation of property placed in service after 1986.....	9,142	47	379	156	3,663	1,585	887	1,250	1,176
Amortization of certified pollution control facilities placed in service after 1986.....	40	--	3	--	32	4	--	1	--
Amortization of mining exploration and development costs paid or incurred after 1986.....	274	--	141	14	78	27	8	( <sup>2</sup> )	7
Circulation expenses.....	1	--	--	1	--	--	--	( <sup>2</sup> )	--
Basis adjustment.....	-363	( <sup>2</sup> )	9	-39	-63	-25	-59	-35	-151
Long-term contracts entered into after February 28, 1986.....	967	--	1	556	361	4	-1	28	19
Installment sales of certain property.....	-460	--	-2	-1	-378	-6	-25	-34	-15
Merchant marine capital construction funds.....	4	4	--	--	( <sup>2</sup> )	2	( <sup>2</sup> )	-1	--
Section 833(b) deduction.....	8	--	( <sup>2</sup> )	--	( <sup>2</sup> )	--	--	8	( <sup>2</sup> )
Tax shelter farm activity loss.....	--	--	--	--	--	--	--	--	--
Passive activity loss.....	107	( <sup>2</sup> )	19	1	2	1	21	55	7
Income with respect to possessions tax credit and alcohol fuel credit.....	-464	--	--	--	-464	--	( <sup>2</sup> )	--	( <sup>2</sup> )
Certain loss limitations.....	6	--	( <sup>2</sup> )	--	7	( <sup>2</sup> )	--	-1	( <sup>2</sup> )
Beneficiaries of estates and trusts.....	2	--	--	( <sup>2</sup> )	--	--	--	2	( <sup>2</sup> )
<b>Tax preference items:</b>									
Total.....	2,439	2	953	20	922	211	85	213	33
Depletion.....	1,607	1	882	9	540	135	28	11	( <sup>2</sup> )
Tax-exempt interest from private activity bonds issued after August 7, 1986.....	35	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	9	2	( <sup>2</sup> )	22	2
Appreciated property charitable deduction.....	28	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	6	1	2	19	( <sup>2</sup> )
Intangible drilling costs.....	147	--	47	1	38	26	10	25	( <sup>2</sup> )
Reserves for losses on bad debts of financial institutions.....	35	--	3	5	1	--	1	25	--
Accelerated depreciation of real property placed in service before 1987.....	429	1	13	4	198	37	43	103	29
Accelerated depreciation of leased personal property placed in service before 1987.....	14	--	( <sup>2</sup> )	1	3	( <sup>2</sup> )	( <sup>2</sup> )	8	2
Amortization of certified pollution control facilities placed in service before 1987.....	10	--	--	--	( <sup>2</sup> )	10	--	--	--
Adjusted net book income (less deficit).....	84,699	281	4,330	975	39,939	11,931	3,167	21,229	2,846
Alternative minimum taxable income before alternative tax net operating loss deduction <sup>4</sup> .....	89,945	340	5,587	1,620	42,817	10,298	4,219	20,834	4,231
Alternative tax net operating loss deduction.....	30,207	175	2,629	785	11,116	3,212	2,050	8,765	1,475
Alternative minimum tax foreign tax credit.....	4,965	( <sup>2</sup> )	240	2	3,821	41	54	653	154
Tentative minimum tax.....	6,472	27	358	193	2,306	1,309	306	1,643	330
Alternative minimum tax.....	3,353	13	211	104	1,469	458	151	802	146

<sup>1</sup>Includes "Nature of business not allocable."

<sup>2</sup>Less than \$500,000.

<sup>3</sup>Deduction allowed certain health insurance organizations was disregarded for alternative minimum tax purposes.

<sup>4</sup>Estimated.

NOTE: Detail may not add to totals because of rounding.

**Table 3.-- Returns with Alternative Minimum Tax: Selected Items by Industrial Division, Tax Year 1989**

[All figures are estimates based on samples - money amounts are in millions of dollars]

Item	Industrial division								
	All industrial divisions	Agriculture, forestry and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance and real estate	Services <sup>1</sup>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns.....	25,237	546	1,063	4,714	4,489	2,410	3,619	5,068	3,328
Total assets.....	4,042,610	4,998	152,827	26,011	912,687	378,630	144,030	2,341,560	81,867
Net income (less deficit).....	58,430	272	4,196	415	27,572	6,582	2,684	14,590	2,118
Taxable income (or loss) before net operating loss deduction.....	54,069	251	3,949	413	25,517	6,194	2,563	13,099	2,083
<b>Adjustment items:</b>									
Total.....	14,639	39	796	703	5,963	2,893	1,286	1,858	1,101
Depreciation of property placed in service after 1986.....	14,506	43	670	169	6,550	2,994	1,411	1,290	1,379
Amortization of certified pollution control facilities placed in service after 1986.....	19	--	( <sup>2</sup> )	--	4	( <sup>2</sup> )	--	( <sup>2</sup> )	15
Amortization of mining exploration and development costs paid or incurred after 1986.....	291	--	151	( <sup>2</sup> )	116	12	8	2	1
Circulation expenses.....	-9	--	--	--	( <sup>2</sup> )	--	--	--	-9
Basis adjustment.....	-811	-1	-18	-1	-179	-92	-149	-73	-298
Long-term contracts entered into after February 28, 1986.....	1,320	--	2	568	718	-5	15	11	11
Installment sales of certain property.....	-160	-1	( <sup>2</sup> )	-39	-66	-14	-6	-34	( <sup>2</sup> )
Merchant marine capital construction funds.....	1	( <sup>2</sup> )	--	--	( <sup>2</sup> )	1	--	--	--
Section 833(b) deduction.....	594	--	--	--	( <sup>2</sup> )	--	--	596	--
Tax shelter farm activity loss.....	12	--	--	--	--	--	--	12	--
Passive activity loss.....	34	( <sup>2</sup> )	-2	( <sup>2</sup> )	-13	( <sup>2</sup> )	( <sup>2</sup> )	44	5
Certain loss limitations.....	( <sup>2</sup> )	--	( <sup>2</sup> )	--	-1	( <sup>2</sup> )	--	( <sup>2</sup> )	( <sup>2</sup> )
Other adjustments.....	-1,158	-2	-6	6	-1,167	-3	8	10	-2
<b>Tax preference items:</b>									
Total.....	2,618	2	984	19	1,099	240	81	169	25
Depletion.....	1,996	1	926	13	863	143	39	10	1
Tax-exempt interest from private activity bonds issued after August 7, 1986.....	69	( <sup>2</sup> )	1	1	33	8	1	21	4
Appreciated property charitable deduction.....	57	--	( <sup>2</sup> )	1	42	4	( <sup>2</sup> )	9	1
Intangible drilling costs.....	130	--	54	1	31	31	5	7	1
Reserves for losses on bad debts of financial institutions.....	27	--	( <sup>2</sup> )	( <sup>2</sup> )	1	3	--	22	( <sup>2</sup> )
Accelerated depreciation of real property placed in service before 1987.....	317	1	3	2	127	42	32	96	15
Accelerated depreciation of leased personal property placed in service before 1987.....	14	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	2	1	2	4	4
Amortization of certified pollution control facilities placed in service before 1987.....	8	--	--	--	( <sup>2</sup> )	8	--	--	--
Adjusted net book income (less deficit).....	68,536	416	3,543	1,031	28,029	16,312	2,893	13,964	2,348
Alternative minimum taxable income before alternative tax net operating loss deduction.....	85,351	379	6,052	1,382	35,785	14,072	4,473	19,481	3,726
Alternative tax net operating loss deduction.....	26,567	198	2,220	438	8,996	3,450	1,904	8,097	1,293
Exemption.....	695	18	21	149	106	69	98	131	103
Alternative minimum tax foreign tax credit.....	3,638	( <sup>2</sup> )	288	( <sup>2</sup> )	2,673	13	56	521	87
Tentative minimum tax.....	8,207	32	474	159	2,875	2,098	439	1,750	380
Alternative minimum tax.....	3,541	17	268	90	1,185	750	238	811	182

<sup>1</sup>Includes "Nature of business not allocable."<sup>2</sup>Less than \$500,000.<sup>3</sup>Deduction allowed certain health insurance organizations was disregarded for alternative minimum tax purposes.

NOTE: Detail may not add to totals because of rounding.

**Table 4.-- Returns with Alternative Minimum Tax: Selected Items by Industrial Division, Tax Year 1990**

[All figures are estimates based on samples - money amounts are in millions of dollars]

Item	All industrial divisions	Industrial division							
		Agriculture, forestry and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance and real estate	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns.....	32,462	1,023	1,342	4,716	6,494	2,758	5,012	6,202	4,914
Total assets.....	6,369,912	7,215	129,693	25,078	1,650,115	783,087	297,863	3,366,235	110,627
Net income (less deficit).....	105,416	256	3,272	743	59,627	16,068	4,103	18,181	3,164
Taxable income (or loss) before net operating loss deduction.....	100,013	232	3,079	730	56,897	15,943	3,952	16,088	3,093
<b>Selected adjustment items:</b>									
Total.....	26,087	81	735	523	10,933	7,209	1,746	3,674	1,185
Depreciation of property placed in service after 1986.....	28,152	84	721	186	12,629	8,295	1,985	2,660	1,592
Amortization of mining exploration and development costs paid or incurred after 1986.....	276	-	125	3	105	35	( <sup>1</sup> )	8	-
<b>Selected tax preference items:</b>									
Total.....	2,737	3	710	19	963	405	115	491	31
Depletion.....	1,395	1	621	11	648	93	7	12	1
Tax-exempt interest from private activity bonds issued after August 7, 1986.....	510	( <sup>2</sup> )	1	1	78	12	65	353	1
Appreciated property charitable deduction.....	68	( <sup>2</sup> )	( <sup>2</sup> )	5	45	2	2	14	( <sup>2</sup> )
Intangible drilling costs.....	352	1	86	1	18	225	6	16	( <sup>2</sup> )
Accelerated depreciation of real property placed in service before 1987.....	372	1	2	( <sup>2</sup> )	172	66	34	72	26
Accelerated depreciation of leased personal property placed in service before 1987.....	6	( <sup>2</sup> )	-	( <sup>2</sup> )	1	( <sup>2</sup> )	2	2	2
Pre-adjustment alternative minimum taxable income.....	128,653	316	4,524	1,269	68,781	23,384	5,813	20,257	4,309
Adjusted current earnings.....	183,883	323	5,126	1,198	89,496	40,015	8,561	34,591	4,573
Alternative minimum taxable income before alternative tax net operating loss deduction.....	178,334	412	5,524	1,535	88,359	36,270	8,497	32,214	5,522
Alternative tax net operating loss deduction.....	22,959	181	1,536	382	7,586	2,384	1,829	6,990	2,071
Alternative minimum taxable income.....	155,821	232	3,996	1,158	80,777	34,166	6,667	25,372	3,452
Exemption.....	832	33	29	137	166	75	140	114	137
Alternative minimum tax foreign tax credit.....	9,227	2	295	20	7,707	89	52	894	167
Tentative minimum tax.....	21,728	37	492	183	8,415	6,695	1,253	4,156	496
Alternative minimum tax.....	8,104	19	330	103	3,418	1,810	461	1,661	302

<sup>1</sup> Includes "Nature of business" not allocable."<sup>2</sup> Less than \$500,000.

NOTE: Detail may not add to totals because of rounding.