

NAR Issue Summary

Federal Tax / Alternative Minimum Tax

NAR Committee:

Federal Taxation Committee

What is the fundamental issue?

The Alternative Minimum Tax (AMT) is a structure that is designed as a second, parallel tax system operating in tandem with the "regular" income tax. While the concept of a minimum tax dates to 1969, its current configuration was crafted in the 1986 Tax Reform Act. The 1986 AMT was designed to assure that "the rich" pay some tax, even though they might have allowable tax deductions that significantly reduce or eliminate their regular income tax liability. The AMT tax base is a broader tax base than the regular income tax, with tax rates that are fairly high. The brackets for the AMT are not indexed for inflation. This feature, along with some other mechanics of the tax, have had the effect of throwing an ever-growing number of middle income families (perhaps as many as 40 million) into the AMT. Because this was never the intent of the AMT's authors, Congress has, since 2001, provided relief that has the effect of shielding the majority of those 25 million taxpayers from the AMT's burden. That relief, known as the "patch," expired December 31, 2009.

I am a real estate professional. What does this mean for my business?

The AMT does not have a direct impact on the business model most Realtors use. It does, however, penalize individuals who live in states with high state and local income and/or property taxes. Individuals in those states often find themselves paying the AMT, even though their only income sources are from self-employment and wages and their deductions rarely go beyond items such as mortgage interest, charitable contributions and state and local taxes.

NAR Policy:

NAR believes current AMT rules are unduly complex and burdensome. NAR opposed the 1986 AMT modifications, but has not reviewed AMT policy since then.

Opposition Arguments:

Legislative/Regulatory Status/Outlook

Extending the AMT "patch" is a very costly proposition. Accordingly, in recent years, it



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has become increasingly difficult to pass legislation that included the patch, even though Members of Congress fully acknowledge the need for it. Some of the pressure (and some of the cost) would be reduced if tax rates were allowed to revert to their pre-2001 levels when the Bush tax cuts expire. The tax-writing Committees are expected to review the AMT during 2010.

Current Legislation/Regulation (bill number or regulation)

No actions at this time.

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