

The Alternate Minimum Tax: Coming Soon to a Property Tax Near You?

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On May 17, 2006, the Alternate Minimum Tax (AMT) was adjusted for the coming year as part of a tax reform bill signed into law by President Bush. Before the latest tax reform, it was estimated that “the AMT [would have] cost Americans who earn \$50,000 to \$200,000 nearly \$13 billion more next April (2007)” (Johnson 2006, 24). Importantly, while the AMT debate is perceived to be a federal income tax policy issue, it has implications both for property tax revenues in Georgia and the state economy more generally.

Tax economists have known for some time that a mortgage interest deduction increases the value of home ownership and resulting home prices. By this logic, eliminating the mortgage interest deduction for taxpayers required to file under the AMT effectively reduces the value of homeownership—reducing support for current property valuations and property tax receipts. Thus, any conversion of individual wealth to federal income tax revenue via the AMT would be subsidized in part by those local governments that rely on the property tax.

As an example, consider a 90 percent loan-to-value mortgage on a \$250,000 home. At today’s 30-year rates (estimated at 6.2 percent) and a marginal tax rate of 28 percent, the interest deduction in the first year provides federal income tax savings of nearly \$4,000. Over the 30-year life of the mortgage, a conservative estimate of the net present value of the \$76,000 tax savings yields \$13,200—or 5.3 percent of the home’s value. Significantly, the loss of the mortgage interest deduction extends to interest paid on second mortgages and the equity lines of credit that many homeowners use to fund major purchases and improvements.

While the precise size of the AMT’s potential impact on property tax receipts is unknown, what is known is that it is linked to increases in the number of Americans exposed to the AMT. Absent any permanent adjustment of the AMT, the New York State Society of Certified Public Accountants (2006, 14) notes that while “[in] 1970 only 19,000 people paid an alternative tax . . . [under] the current AMT, that number has proliferated to 3 million people today, and if things don’t change, as many as 33 million taxpayers might pay additional taxes under the AMT by 2010.”

To put these numbers in perspective, the 3 million Americans who pay the AMT currently represent roughly 1 percent of the U.S. population, or about a third of the population of Georgia. In 2010, 33 million Americans would represent about 10 percent of the projected U.S. population, or roughly four times Georgia’s projected population. Adding further to the AMT’s state and local tax impact are home ownership dynamics. Although just under 70 percent of Americans own a home, ownership is concentrated among those in the middle- and upper-income brackets—taxpayers most directly affected by the AMT. Thus, not only will a greater proportion of those currently paying property taxes be affected by the adjusted AMT but also the impact on local and state revenue could be very significant. Beyond the direct tax impact on communities, repercussions should also be expected among builders and developers, mortgage lenders, realtors, and a variety of other trades important to Georgia’s economy.

While better data would afford more accurate estimates of the AMT’s likely impact on property revenue and the economy, it is clear that Georgia’s state and local governments have a rather large stake in federal tax policy regarding the AMT. From the state’s perspective, little can be done to mitigate the conversion of property tax revenue to federal income tax revenue. What local communities can and should do is to prepare a response to the loss of property tax revenue should there be a significant increase in the number of taxpayers required to file under the AMT.

Sources

Johnson, David Cay. 2006. With tax break expired, middle class faces a greater burden for 2006. *New York Times*, April 16, 24.

New York State Society of Certified Public Accountants Committee on Practical Reform for the Tax System. 2006. The SET tax: A tax system for our future. *CPA Journal* (February): 14.

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