Alternative Minimum Tax (AMT)

Senate Finance

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2/22/2023

AMT History

- Current version of the alternative minimum tax added by Act 57 of 2015, Sec. 65
- Relevancy change with Vermont income tax reform in 2018:
  - Starting with Act 140 of 2002, Vermont's taxable income definition started with federal taxable income, which subtracts deductions from gross income
  - 2017 Act 73, Sec. 13a shifted the starting point to Federal AGI
    - In reaction to the Federal Tax Cuts and Jobs Act, which eliminated many different deductions

Alternative Minimum Tax

- Only taxpayers with an AGI over $150,000 can trigger the AMT
- The taxpayer pays the greater amount of:
  - The tax liability calculated based on Vermont taxable income and income tax tables/brackets

  OR

  - 3% on all AGI (AMT) – no marginal rates or brackets
- Because of the way that Vermont treats bonus depreciation, medical expenses, and capital gains, occasionally they drive a taxpayer's liability below 3% of AGI, and if the taxpayer has over $150K of AGI, they will owe the AMT.

Who Triggers the AMT

- AGI over $150,000
- When Vermont taxable income is calculated, you can end up with a tax liability below 3% of your AGI
- Three main deductions (which decrease taxable income) are relevant to the AMT:
  - Bonus depreciation (in some cases)
  - Medical expenses deduction
  - Capital gains exclusion
  - Other items

Taxpayer Example – Married Couple no kids

Vermont Income Tax Liability	
AGI	150,100
Less Medical Deduction	25,000
Less Standard Deduction	13,050
Less Personal Exemption	9,000
Vermont Taxable Income	103,050
2022 Taxes	3,679
Effective Tax Rate	2.45%

AMT Calculation	
AGI	150,100
AMT of AGI	3%
Taxes Owed Based on AMT	4,503
Difference	**824**

- Taxpayer will pay the AMT because their AGI is over $150,000 and the AMT is greater than their calculated tax liability.

Subtractions from AGI

Items that can lower Vermont taxable income that trigger AMT

Overview of Bonus Depreciation

- Tax Cuts and Jobs Act of 2017 increased the amount of bonus depreciation a taxpayer can deduct from their adjusted gross income from 50% of the value in the first year to 100% of value in the first year.
- This reduces an individual's AGI for the purposes of calculating their Vermont income tax.
- However, Vermont does not allow an individual to deduct the full value in the first year. The depreciation must be amortized over a 5-year period.
  - As such, a taxpayer who has taken the full deduction on their federal income taxes in year 1, must add back 80% of the deduction as part of the calculation of Vermont taxable income.

Bonus Depreciation and the AMT

- In year 1, a taxpayer can deduct the full depreciation of a capital asset on their Federal income taxes, but they must add back the 80% of the depreciation to calculate their Vermont income taxes.
- In years 2-5, the taxpayer can deduct 20% of the asset value from their when calculating their Vermont taxable income.
- Some taxpayers, with AGI over $150,000 trigger the AMT, because they are spreading the depreciation across multiple years, when they take this deduction over the next 4 years.
- This effectively changes the tax benefits of depreciation for the taxpayer.
- Based on how the deduction for bonus depreciation is structured, taxpayers would receive the tax benefit for 5 years, but this can be negated if they trigger the AMT.

Capital Gains

- Vermonters can exclude a portion of their realized capital gains each year from income tax.
- Different than federal law, which taxes capital gains at a separate rate
- Capital Gains are the profits resulting from the sale of a capital asset such as shares of stock, a business, real estate, or a work of art.
- Taxpayers can either
  - Exclude $5,000 or less of adjusted net capital gains (short or long-term) or
  - A 40% exclusion limited to the lesser of $350K or 40% of Federal taxable income.
    - This is restricted to certain assets held for more than 3 years including the sale of non-publicly traded businesses, farms, investment property, and timber.

Capital Gains and the AMT

- If an individual's tax liability to lowered by the Vermont capital gains exclusion to the point that it is less than 3% of their AGI and the individual's AGI is over $150K, then the individual's entire AGI will be subject to the AMT.

Medical Deduction

- Effective for tax year 2019 and going forward, Act 71 of 2019, Sec. 2 created a new deduction for medical expenses within the personal income tax.
- Taxpayers can deduct the amount of their federal itemized medical expense deduction minus:
  - The amount of the Vermont standard deduction and personal exemptions.
  - Any amount deducted for entrance fees or monthly payments to a continuing care retirement community which exceeds the limits for premiums paid on qualified long-term care insurance contracts.

Medical Deduction and the AMT

- If an individual has a significant medical event, and has an AGI over $150,000 it is possible that their medical deduction would trigger payment of the AMT.