



Iowa Department of
REVENUE

**Iowa's Alternative Minimum Tax Credit
Tax Credits Program Evaluation Study**

December 2020

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Preface

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the second evaluation study completed for this administrative tax credit.

This study and other evaluations of Iowa tax credits can be found on the [Tax Credits Tracking and Analysis Program web page](#) on the Iowa Department of Revenue website.

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I. Introduction

The Iowa Alternative Minimum Tax (Iowa AMT) Credit went into effect for tax years beginning on or after January 1, 1988. A taxpayer may be eligible for the Iowa Alternative Minimum Tax Credit if they paid Iowa alternative minimum tax in previous years based on tax preferences and adjustments. The purpose of the AMT is to ensure higher income taxpayers, who might otherwise avoid Iowa tax liability due to a high amount of tax deductions, pay a minimum amount of income tax. The tax credit can be claimed in subsequent tax years against AMT paid previously on corporation income, individual income, and franchise taxes, provided AMT is not also due in the same tax year. The tax credit is nonrefundable and cannot be transferred to another taxpayer. In past years the tax credit did not expire and could be carried forward to subsequent tax years. Effective tax year 2021, however, the Iowa AMT is repealed for corporate and franchise income taxes, and the AMT Tax Credit will expire the following tax year. Similarly, the individual income tax AMT provision is subject to repeal in tax year 2023, with the AMT Tax Credit expiring the following tax year.

Section II of this study will further explain the Iowa Alternative Minimum Tax Credit. Section III of this study will provide information about if other states levy an alternative minimum tax and allow a corresponding alternative minimum tax credit. Section IV will look at the statistics related to Iowa alternative minimum tax paid and Iowa Alternative Minimum Tax Credits claimed. Section V will conclude this study.

II. Iowa Alternative Minimum Tax Credit

The Iowa Alternative Minimum Tax Credit is an administrative tax credit because taxpayers become eligible to claim the credit after facing an Iowa alternative minimum tax obligation in a prior tax year. The Iowa alternative minimum tax is imposed, for the most part, on the same tax preference items and adjustments on which federal alternative minimum tax is imposed. The Iowa alternative minimum tax for individual income taxpayers, as well as estates and trusts, is computed on the IA 6251. The Iowa alternative minimum tax for corporation income taxpayers is computed on the IA 4626 and the Iowa alternative minimum tax for franchise taxpayers is computed on the IA 4626F.

For all three tax types subject to the Iowa alternative minimum tax, the amount of tax is based on the “tentative alternative minimum tax”. The calculation of the tentative alternative minimum tax uses a broader measure of taxable income and a flat rate lower than the top marginal rate levied under each tax type. (Seventy-five percent of the top marginal rate is applied, rounded to the nearest one-tenth of one percent.) This ensures that the taxpayer will pay at least a minimum amount of tax on a wider definition of income. Only when the tentative alternative minimum tax exceeds the tax owed under the basic rates and brackets will a taxpayer owe the Iowa alternative minimum tax. The amount owed is the amount by which the tentative alternative minimum tax exceeds the basic tax.

The AMT is imposed on income above an exemption amount that is a function of the tax type, and for individual taxpayers, the filing status.¹ These exemption amounts were not originally indexed to inflation, however, so while the amounts were meant to target the AMT toward higher income taxpayers at the enactment of the tax, it was no longer assured that was the case. The Iowa AMT will be repealed in tax year 2021 for corporate income tax and may be repealed in 2023 for individual income tax if fiscal targets are met. The AMT Tax Credit allows the tax code to offset AMT in certain cases. If a taxpayer becomes subject to the AMT in a single year because of a one-time occurrence of the covered adjustments or preferences, the AMT Credit would allow that taxpayer to eventually recover all of the taxes paid because of the odd occurrence. On the other hand, a taxpayer who regularly receives the covered adjustments or preferences would be regularly subject to the AMT and thus not be eligible to claim the AMT Credit.

Since tax year 1987, the amount of Iowa alternative minimum tax paid is eligible to be claimed as a tax credit in the following tax year or any subsequent year. In any given year, the Iowa AMT Credit cannot be claimed if the taxpayer owes Iowa alternative minimum tax. The Iowa AMT Credit is nonrefundable, which means claims cannot exceed the tax liability of the taxpayer.

Although claims were fairly restricted, prior to AMT repeal the credits did not expire, so they could be carried forward an indefinite number of years. However, if a taxpayer was always subject to the Iowa alternative minimum tax or did not have Iowa tax liability in any future year, tax credits would not be able to be used. Once the AMT is repealed (2021 for corporate, tentatively 2023 for individual), the credits will no longer be accrued and the ability to claim them will also expire in that tax year.

III. Alternative Minimum Tax Credits at the Federal Level and in Other States

As a result of the enactment of the 2017 Tax Cuts and Jobs Act, the federal government repealed the alternative minimum tax on corporations. The repeal of the corporate alternative minimum tax credit has led to the removal of similar tax credits at the state level for states that relied on the federal alternative minimum tax credit for mathematical calculations on how much credit to provide corporations. As of tax year 2019, five states, including Iowa, imposed an alternative minimum tax against corporation income tax (and franchise tax, where applicable). The states are California, Iowa, Minnesota, Kentucky and New Hampshire. Each of the five states allow an AMT Tax Credit to be claimed against corporation income tax in subsequent years. Maine and Florida repealed their alternative minimum tax on corporations in 2018. As of May 2018, Iowa is set to repeal

¹ The exemption is \$35,000 for taxpayers filing married jointly, \$17,500 for filing married separately as well as estates and trusts, and \$26,000 for single, head of household and qualifying widow filers. Banks and corporations are allowed a \$40,000 exemption. <https://www.legis.iowa.gov/docs/code/422.5.pdf>

its corporate alternative minimum tax effective tax year 2021, and the AMT Tax Credit will be repealed effective tax year 2022.

An Alternative Minimum Tax can be imposed against federal individual income tax as well as against all estates and trusts. However, The Tax Cuts and Jobs Act increased the federal AMT's exemption amounts and phase-out thresholds through 2025, meaning fewer taxpayers will be required to calculate and pay the federal AMT in forthcoming years.² (Unlike the federal levels, however, the Iowa exemption amounts have not been raised for both corporate and individual income prior to AMT repeal.³)

As of tax year 2019, there are five states, including Iowa, which have an alternative minimum tax credit that applies to individual income tax. Only one of those states, Minnesota, borders Iowa. California, Colorado, and Connecticut also levy the tax against individual income tax. All of those states offer an alternative minimum tax credit that can be claimed in at least one subsequent tax year. Wisconsin, another bordering state, had an alternative minimum tax credit that applied to individual income tax which was repealed effective tax year 2019.⁴ Iowa's individual AMT Tax Credit is scheduled for repeal in tax year 2024 if fiscal targets are met.

IV. Analysis of Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims

In order to claim the Iowa Alternative Minimum Tax Credit, a taxpayer must have first paid the Iowa alternative minimum tax in a prior tax year. On average, \$17.0 million of Iowa alternative minimum tax has been paid each tax year between 2012 and 2019 (see [Table 1](#)). The amount of AMT paid each tax year is split between corporation income tax and individual income tax. On average, 39 percent of Iowa AMT liability is paid with the corporation income tax and 61 percent is paid with the individual income tax. An AMT is also assessed against banks subject to the Iowa franchise tax. The data for franchise AMT paid, however, are not reliably available and so have been excluded from this analysis.

² Article in the Tax Foundation website describing individual AMT at the state level at <https://taxfoundation.org/state-individual-alternative-minimum-tax-2019/>.

³ The exemption amount [for individual taxpayers] shall be reduced, but not below zero, by an amount equal to twenty-five percent of the amount by which the alternative minimum taxable income of the taxpayer exceeds the following: \$150,000 for taxpayers filing married jointly, \$75,000 for filing married separately as well as estates and trusts, and \$112,500 for single, head of household and qualifying widow filers. <https://www.legis.iowa.gov/docs/code/422.5.pdf>. For corporate, the exemption amount shall be reduced by 25 percent of the amount that the alternative minimum taxable income computed without regard to the \$40,000 exemption exceeds \$150,000. <https://www.legis.iowa.gov/docs/iac/rule/701.52.5.pdf>.

⁴ State information was obtained from <https://taxfoundation.org/state-individual-alternative-minimum-tax-2019/> and state tax websites.

Once a taxpayer has paid the Iowa alternative minimum tax, an Iowa Alternative Minimum Tax Credit up to the difference in regular tax liability and the AMT liability amount can be claimed in subsequent tax years, provided that AMT is not due in those tax years as well. On average, between 2012 and 2019, \$6.8 million in Alternative Minimum Tax Credits was claimed each tax year (see [Table 2](#)). In past years, the amount of tax credits carried forward each year could continue to grow due to the fact that the credit never expired. However, both the amount of tax credits claimed and the amount carried forward has declined in 2019 over 2018, especially with regard to corporate AMT which expires in tax year 2021. While the overall average claim from 2012 to 2019 is \$7.1 million, the amount in 2019 alone is \$2.6 million. Likewise, the overall average of claims carried forward from 2012 to 2019 is \$30.1 million, while the 2019 amount alone is \$8.5 million. Note that 2019 is an incomplete tax year, so more AMT tax paid and AMT Tax Credit claims may yet be processed.

Tax credits claimed by banks against the franchise tax are more readily available than AMT paid, so those claims are included in [Table 2](#). Note, however, because of the low number of franchise tax credit claims, franchise claims have been combined with corporation income tax claims to avoid disclosing taxpayer information. The split between corporation income tax claims and individual income tax claims is very similar to the split between Iowa AMT paid for both of those tax types. On average, the split for Iowa AMT Credit claims is 43 percent made by corporation income taxpayers and 57 percent made by individual income taxpayers.

Between tax years 2012 and 2019, Iowa alternative minimum tax paid each year has exceeded the Iowa AMT Credits that have been claimed (see [Table 3](#)). In the aggregate, the tax credits claimed against individual and corporation income taxes offset on average 42 percent of the revenue raised by the Iowa AMT for the same tax types annually. The net revenue gain was the smallest in 2014 when the gain was just over \$3 million. The largest net revenue gain was in 2018 when the gain was over \$14 million. Between 2012 and 2019, the overall net gain averaged \$9.8 million a year. While the annual net gain is a positive for State coffers, the alternative minimum tax increases the contingent liabilities of the State as any AMT paid becomes available for taxpayers to claim as tax credits in future years.⁵ The last year to claim the AMT tax credit will be tax year 2021 for corporate and potentially in 2023 for individual when the AMT is repealed.

As stated in the Introduction, the purpose of the AMT is to ensure higher income taxpayers, who might otherwise avoid Iowa tax liability, pay a minimum amount of income tax. The AMT Credit is available to offset that liability in later years when the taxpayer is no longer subject to the AMT. The subsequent claim to the AMT Credit is not necessarily made at the same income level that the taxpayer had at the time of the original AMT obligation. To see how the income levels shift between the two groups we can compare the individual income level of taxpayers who paid AMT to the income of those who claimed the AMT Credit in the same tax year. When comparing the percent of individual taxpayers by income group, both groups of taxpayers follow a similar pattern, with the highest

⁵ The Alternative Minimum Tax Credit is not included in the Iowa Department of Revenue Contingent Liabilities Report for the State of Iowa because that report does not forecast administrative claims.

percentage of taxpayers lying within the \$60,000 - \$149,999 income groups, with another peak at the \$500,000 - \$999,999 income group (see [Figure 1](#)). Note, however, there is somewhat of an upward shift in income ranges between the two groups. For taxpayers who paid the AMT, the first three-quarters fall in income ranges below \$175,000. For taxpayers claiming the AMT Credit, however, the first three-quarters fall in income ranges up to \$250,000. In both cases, the first peak in the number of taxpayers occurs in the ranges between \$75,000 - \$124,999, and then again at the \$250,000 to \$499,999 range, with the percentage of AMT Credit claims surpassing the percentage of taxpayers paying AMT in the latter case. The higher percentage of AMT Credit claimants at the higher range indicates that those taxpayers who must pay the AMT tax have, on average, a lower income than those that are eligible to claim the AMT Tax Credit. Recall that these are two different groups of taxpayers because if a taxpayer pays the Iowa alternative minimum tax in a given tax year, that taxpayer is ineligible to claim the Iowa AMT Credit in the same year for taxes paid in prior years. The highest single percentage of taxpayers for both groups lies in the range of Iowa adjusted gross income between \$75,000 and \$99,999.

A similar analysis was completed for corporation income taxpayers who paid AMT and the taxpayers who claimed the AMT Tax Credit (see [Figure 2](#)). As with individual taxpayers, there is somewhat of an upward shift in income ranges between the two corporate groups. For corporate taxpayers who paid the AMT, the first three-quarters fall in income ranges below \$500,000. For corporate taxpayers claiming the AMT Credit, however, the first three-quarters fall in the higher income ranges starting below \$1,000,000. This indicates that more corporations that must pay the AMT tax have a somewhat lower income than those that are eligible to claim the AMT Tax Credit. For corporate AMT, both the peak number of payers and the peak number of Tax Credit claimants fall in the \$1,000,001 - \$25,000,000 range. For AMT payers the percentage in this range is 25 percent, while for AMT Credit claimants the percentage in this range is higher at 31 percent.

V. Conclusion

The Alternative Minimum Tax Credit has been in place for AMT paid during the last 32 tax years. This tax credit is most beneficial to those taxpayers who only seldom must pay alternative minimum tax. It allows those taxpayers a chance to recoup the AMT paid when AMT is not due in a later year. Because the tax credit does not expire, the amount of tax credits that are carried forward continue to accumulate. As of 2017, however, the corporate AMT is due to be repealed in 2021. The credit will be available for AMT paid in tax years 1987-2020, up to the excess of regular tax liability over calculated AMT. For tax year 2021, the credit cannot exceed regular tax liability. For tax year 2022 and later, the corporate AMT credit is repealed.

Similarly, the individual AMT is subject to be repealed for tax year 2023 if fiscal triggers are met. Individual AMT payers may claim the AMT Tax Credit for tax years 1987-2022, up to the excess of regular tax liability over calculated AMT. For tax year 2023, the credit

cannot exceed regular tax liability. For tax year 2024 and later, the individual AMT credit is repealed.

In both cases of AMT repeal, there will not necessarily be a large effect on tax credit claims, since the amount of the AMT Tax Credit is limited to the difference between the accumulated credit and the regular tax due in the tax year to which it is applied.

**Iowa's Alternative Minimum Tax Credit
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Tables and Figures**

Table 1. Iowa Alternative Minimum Tax Paid by Tax Type, Tax Years 2012 – 2019

Tax Year	Corporation Income Tax			Individual Income Tax			Total Income Tax	
	Number of Businesses	Total AMT Paid	Average AMT Paid	Number of Households	Total AMT Paid	Average AMT Paid	Total Number of Taxpayers	Total AMT Paid
2012	286	\$10,607,370	\$37,089	21,839	\$7,899,229	\$362	22,125	\$18,506,599
2013	316	\$5,989,130	\$18,953	23,730	\$9,326,077	\$393	24,046	\$15,315,207
2014	325	\$6,229,398	\$19,167	25,689	\$9,909,166	\$386	26,014	\$16,138,564
2015	321	\$5,056,754	\$15,753	28,840	\$10,833,340	\$376	29,161	\$15,890,094
2016	309	\$4,352,426	\$14,086	32,862	\$12,836,614	\$391	33,171	\$17,189,040
2017	319	\$7,006,048	\$21,963	27,182	\$9,811,704	\$361	27,501	\$16,817,752
2018	422	\$11,673,045	\$27,661	25,993	\$9,957,146	\$383	26,415	\$21,630,191
2019*	208	\$2,037,360	\$9,795	32,564	\$12,152,449	\$373	32,772	\$14,189,809
Average	313	\$6,618,941	\$20,558	27,337	\$10,340,716	\$378	27,651	\$16,959,657

*Tax Year incomplete

Table 2. Iowa Alternative Minimum Tax Credit Claims by Tax Type, Tax Years 2012 - 2019

Tax Year	Corporation Income Tax & Franchise Tax*				Individual and Estates & Trusts Income Tax				Total	
	Number of Claims	Total Credits Available	Total Credits Claimed	Credits Carried Forward	Number of Claims	Total Credits Available	Total Credits Claimed	Credits Carried Forward	Total Credits Claimed	Credits Carried Forward
2012	147	15,468,288	\$2,456,014	\$13,017,530	14,986	\$22,806,439	\$3,944,006	\$19,016,338	\$6,400,020	\$32,033,868
2013	166	16,651,990	\$5,121,678	\$12,140,659	16,253	\$26,429,497	\$3,633,695	\$22,957,157	\$8,755,373	\$35,097,816
2014	153	17,360,291	\$6,747,712	\$10,732,687	17,597	\$32,284,269	\$6,187,163	\$26,369,985	\$12,934,875	\$37,102,672
2015	108	13,508,472	\$3,571,297	\$9,935,101	14,444	\$25,672,289	\$3,038,417	\$22,988,233	\$6,609,714	\$32,923,334
2016	84	9,425,451	\$1,737,912	\$7,699,794	17,362	\$28,423,053	\$5,220,252	\$23,525,507	\$6,958,164	\$31,225,301
2017	77	9,733,736	\$1,113,588	\$7,787,925	15,036	\$33,238,219	\$4,294,678	\$29,215,585	\$5,408,266	\$37,003,510
2018	61	6,225,432	\$3,071,111	\$3,177,538	13,748	\$27,554,725	\$4,290,559	\$23,739,929	\$7,361,670	\$26,917,467
2019**	49	1,686,185	\$619,685	\$549,897	10,536	\$9,448,199	\$1,939,745	\$7,940,734	\$2,559,430	\$8,490,631
Average	106	11,257,481	\$3,054,875	\$8,130,141	14,995	25,732,086	\$4,068,564	\$21,969,184	\$7,123,439	\$30,099,325

* To avoid disclosing franchise taxpayer data due to small numbers, franchise tax numbers have been combined with corporation income tax numbers.

**Tax Year incomplete

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule

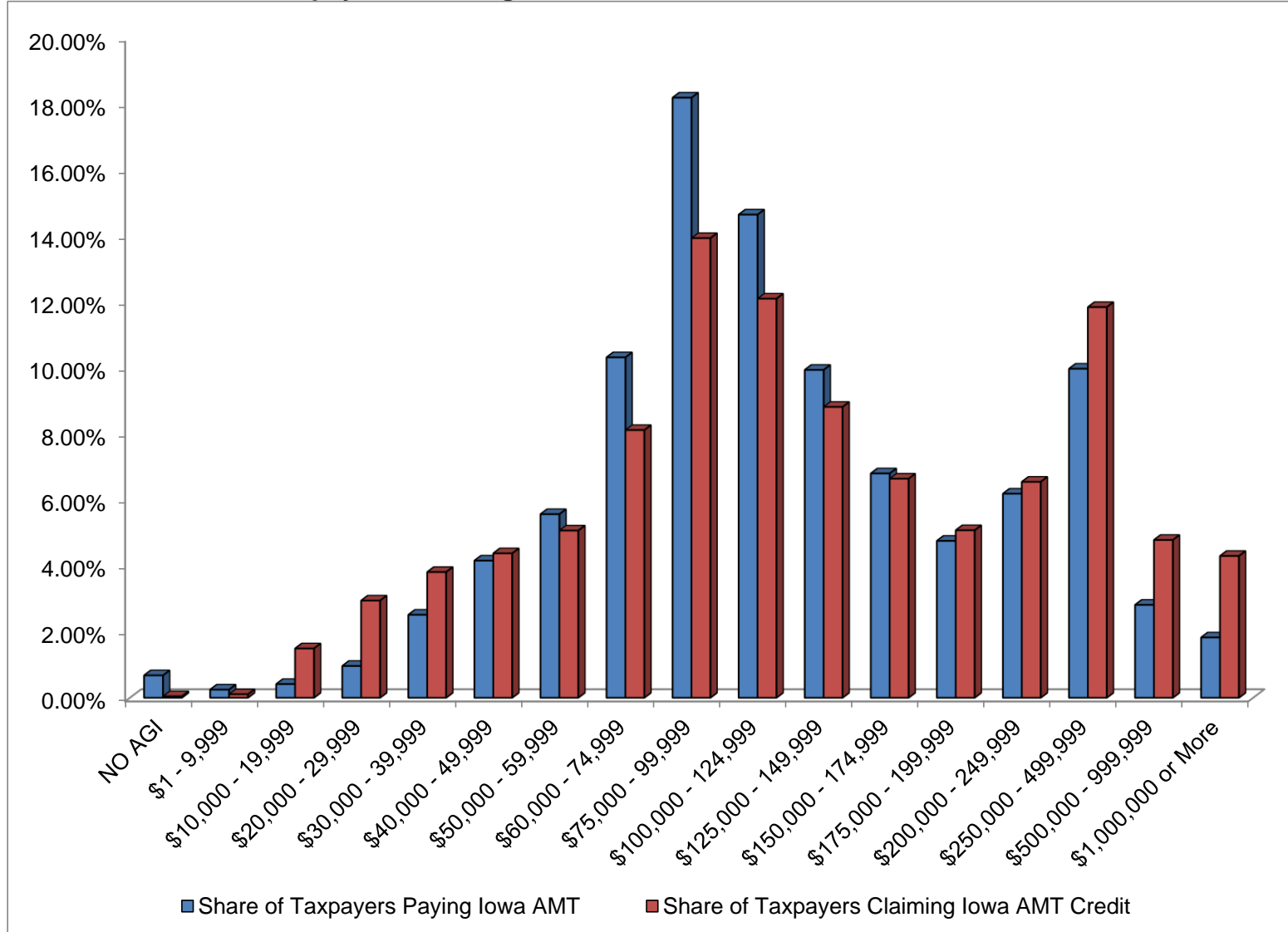
Table 3. Difference Between Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims, Tax Years 2012 - 2019

Tax Year	Total Iowa AMT Paid	Total Iowa AMT Credit Claims	Total Net Taxes Collected	Iowa AMT Credits as a % of Iowa AMT Paid
2012	\$18,506,599	\$6,400,020	\$12,106,579	34.58%
2013	\$15,315,207	\$8,755,373	\$6,559,834	57.17%
2014	\$16,138,564	\$12,934,875	\$3,203,689	80.15%
2015	\$15,890,094	\$6,609,714	\$9,280,380	41.60%
2016	\$17,189,040	\$6,958,164	\$10,230,876	40.48%
2017	\$16,817,752	\$5,408,266	\$11,409,486	32.16%
2018	\$21,630,191	\$7,361,670	\$14,268,521	34.03%
2019*	\$14,189,809	\$2,559,430	\$11,630,379	18.04%
Average	\$16,959,657	\$7,123,439	\$9,836,218	42.00%

*Tax Year incomplete

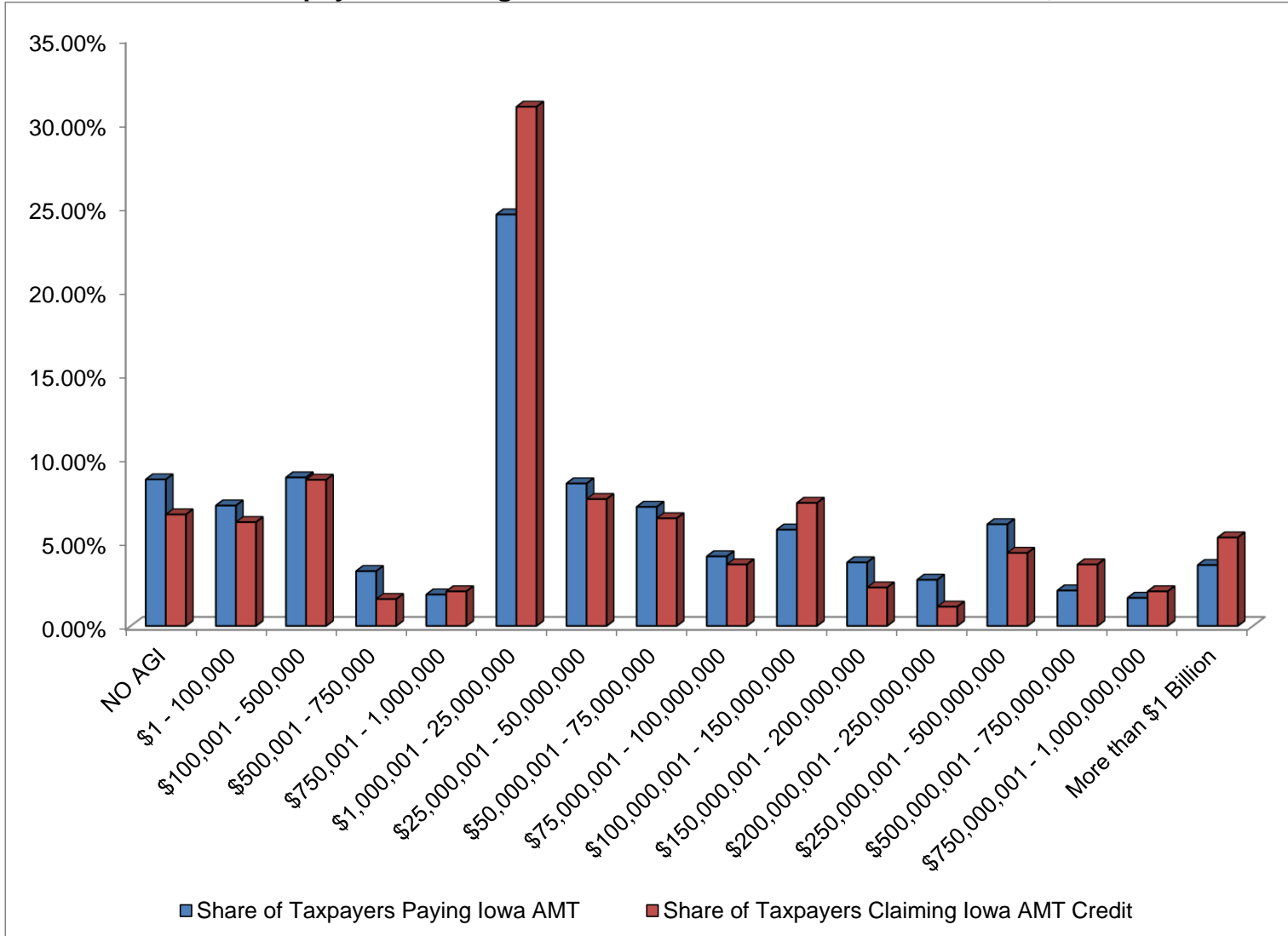
Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 148 Tax Credit Schedule

Figure 1. Average Distribution by Adjusted Gross Income of Individual Income Taxpayers Paying Iowa Alternative Minimum Tax Versus Taxpayers Claiming the Iowa Alternative Minimum Tax Credit, Tax Years 2012-2019



Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 148 Tax Credit Schedule

Figure 2. Average Distribution by Federal Net Income of Corporation Income Taxpayers Paying Iowa Alternative Minimum Tax Versus Taxpayers Claiming the Iowa Alternative Minimum Tax Credit, Tax Years 2012-2019



Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 148 Tax Credit Schedule