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

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Preface

Iowa Code Section 2.48 directs the Department of Revenue to review certain tax expenditures it administers. The review shall consist of evaluating the tax credit and assess its equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the legislation that enacted the tax expenditure, as those issues pertain to taxation in Iowa. This is the third 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.

Table of Contents

Preface.....	2
Table of Contents	3
I. Introduction	4
II. Iowa Alternative Minimum Tax Credit.....	4
III. Alternative Minimum Tax Credits at the Federal Level and in Other States	5
IV. Analysis of Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims.....	6
V. Conclusion	8
Iowa's Alternative Minimum Tax Credit Tax Credits Program Evaluation Study Tables and Figures	9
Table 1. Iowa Alternative Minimum Tax Paid by Tax Type, Tax Years 2012 – 2022 .	10
Table 2. Iowa Alternative Minimum Tax Credit Claims by Tax Type, Tax Years 2011 - 2022	11
Table 3. Difference Between Iowa Alternative Minimum Tax Paid and Iowa Alternative Minimum Tax Credit Claims, Tax Years 2012 - 2022.....	12
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 2012-2023	13
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 2012-2021	14

I. Introduction

The Iowa Alternative Minimum Tax (Iowa AMT) Credit went into effect for tax years beginning on or after January 1, 1987. A taxpayer could have been eligible for the Iowa AMT Credit if they had paid Iowa alternative minimum tax (AMT) in previous years based on tax preferences and adjustments. The purpose of the AMT was to ensure higher income taxpayers, who might otherwise have avoided Iowa tax liability due to a high amount of tax deductions, paid a minimum amount of income tax. The tax credit could have been claimed in subsequent tax years against AMT paid previously on corporation income, individual income, and franchise taxes, provided AMT was not also due in the same tax year. The tax credit was nonrefundable and could not be transferred to another taxpayer. The tax credit could be carried forward to subsequent tax years. Effective tax year 2021, however, the Iowa AMT was repealed for corporate and franchise income taxes, and the AMT Tax Credit expired the following tax year. Similarly, the individual income tax AMT provision was 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 AMT Credit. Section III of this study will provide information about whether other states levy an alternative minimum tax and allow a corresponding AMT credit. Section IV will look at the statistics related to Iowa AMT paid and Iowa AMT Credits claimed. Section V will conclude this study.

II. Iowa Alternative Minimum Tax Credit

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

For all three tax types subject to the Iowa AMT, the amount of tax was based on the “tentative alternative minimum tax”. The calculation of the tentative AMT used 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 was applied, rounded to the nearest one-tenth of one percent.) This ensured that the taxpayer would pay at least a minimum amount of tax on a wider definition of income. Only when the tentative AMT exceeded the tax owed under the basic rates and brackets did a taxpayer owe the Iowa AMT. The amount owed was the amount by which the tentative AMT exceeded the basic tax.

The Iowa AMT was imposed on income above an exemption amount that was a function of the tax type, and for individual taxpayers, the filing status.¹ These exemption amounts were not indexed to inflation. Therefore, while the amounts were meant to target the AMT toward higher income taxpayers at the enactment of the tax, due to the credit not being subject to indexation, as inflation expanded so too did the population subject to the AMT. The Iowa AMT was repealed in tax year 2021 for corporate income tax and in 2023 for individual income tax. The AMT Tax Credit allowed the tax code to offset Iowa AMT in certain cases. If a taxpayer became subject to the Iowa 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 received the covered adjustments or preferences was then regularly subject to the Iowa AMT and thus not eligible to claim the AMT Credit.

Since tax year 1987, the amount of Iowa AMT paid was 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 could not be claimed if the taxpayer owed Iowa AMT. The Iowa AMT Credit was nonrefundable, which means claims could not exceed the tax liability of the taxpayer.

Although claims were fairly restricted, prior to Iowa 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 AMT or did not have Iowa tax liability in any future year, tax credits were not able to be used. Once the Iowa AMT was repealed (2021 for corporate, 2023 for individual), the credits could no longer be accrued and the ability to claim them also expired 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 federal alternative minimum tax (AMT) on corporations. The repeal of the corporate AMT has led to the removal of similar tax credits at the state level for states that relied on the federal AMT credit for mathematical calculations on how much credit to provide corporations. Up to tax year 2021, five states, including Iowa, imposed an AMT against corporation income tax (and franchise tax, where applicable). The states were California, Iowa, Minnesota, Kentucky and New Hampshire. Each of the five states allowed an AMT Tax Credit to be claimed against corporation income tax in subsequent years. Maine and Florida repealed their AMT on corporations in 2018. Iowa repealed its corporate AMT effective tax year 2020, and the AMT Tax Credit was repealed effective tax year 2021

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.

Source: <https://www.legis.iowa.gov/docs/code/422.5.pdf>

An AMT 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 would be required to calculate and pay the federal AMT in forthcoming years.² (Unlike the federal levels, however, the Iowa exemption amounts were not raised for both corporate and individual income prior to AMT repeal.³)

Up to tax year 2023, there were five states, including Iowa, which had an alternative minimum tax credit that applied to individual income tax. Only one of those states, Minnesota, borders Iowa. California, Colorado, and Connecticut also levied the tax against individual income tax. All of those states offered an AMT credit that could be claimed in at least one subsequent tax year. Wisconsin, another bordering state, had an AMT credit that applied to individual income tax which was repealed effective tax year 2019.⁴ Iowa's individual AMT Tax Credit was repealed in tax year 2023.

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

In order to have claimed the Iowa AMT, a taxpayer must have first paid the Iowa alternative minimum tax in a prior tax year. On average, \$15.4 million of Iowa alternative minimum tax had been paid each tax year between 2012 and 2023 (see [Table 1](#)). The amount of Iowa AMT paid each tax year was split between corporation income tax and individual income tax. Between 2012 and 2020, on average, 43.5 percent of Iowa AMT liability was paid with the corporation income tax and 56.5 percent was paid with the individual income tax. An AMT was also assessed against banks subject to the Iowa franchise tax. The data for Iowa franchise AMT paid, however, was not reliably available and so have been excluded from this analysis.

Once a taxpayer paid the Iowa AMT, an Iowa AMT up to the difference in regular tax liability and the AMT liability amount could be claimed in subsequent tax years, provided that AMT was not due in those tax years as well. On average, between 2011 and 2023, \$7.9 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 had not yet expired. However, both the amount of tax credits

² Article in the Tax Foundation website describing individual AMT at the state level can be found here <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". Source: <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." Source: <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.

claimed and the amount carried forward had declined in 2020 over 2019 before increasing again in 2021. Corporate AMT, which expired in tax year 2021, continued to experience decline in total credits claimed in 2021 whereas Individual credit claims increased in 2021 over 2020. While the overall average claim from 2011 to 2021 was \$8.1 million, the amount in 2021 alone was \$9.3 million. Likewise, the overall average of claims carried forward from 2012 to 2021 was \$28.9 million, while the 2021 amount was \$19.4 million. Due to taxpayers only being able to claim the AMT credit in years that they did not pay the AMT, and the credit being available for a year following the repeal of the AMT, it is safe to say that the number of claims jumped in TY 2021 due to the ability to claim the credit now that they were not paying the AMT.

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 was very similar to the split between Iowa AMT paid for both of those tax types. Between 2011 and 2021, on average, the split for Iowa AMT Credit claims was 49.6 percent made by corporation income taxpayers and 50.4 percent made by individual income taxpayers.

Between tax years 2012 and 2020, Iowa AMT paid each year had exceeded the Iowa AMT Credits that had been claimed (see [Table 3](#)). In the aggregate, the tax credits claimed against individual and corporation income taxes offset on average 50.6 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 2019 when the gain was approximately \$13.7 million. Between 2012 and 2023, the overall net gain averaged \$7.9 million a year. While the annual net gain was, overall, a positive for the State General Fund, the AMT increased the contingent liabilities of the State as any AMT paid became available for taxpayers to claim as tax credits in future years.⁵ The last year to claim the AMT tax credit was tax year 2021 for corporate income payers and 2023 for individual income payers, when the AMT was repealed. It is safe to assume that the net revenue gain was negative in TY 2021 due to the corporate claims of the AMT credit offsetting the absence of corporate payments of the AMT. The same goes for TY 2023 when individual income taxpayers could claim the AMT credit and there was no revenue from individual AMT payments.

As stated in the Introduction, the purpose of the AMT was to ensure higher income taxpayers, who might have otherwise avoided Iowa tax liability, pay a minimum amount of income tax. The AMT Credit was available to offset that liability in later years when the taxpayer was no longer subject to the AMT. The subsequent claim to the AMT Credit was 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 shifted between the two groups, a comparison was analyzed between 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

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

comparing the percent of individual taxpayers by income group, both groups of taxpayers followed a similar pattern, with the highest percentage of taxpayers lying within the \$75,000 - \$174,999 income groups, with another peak at the \$250,000 - \$499,999 income group (see [Figure 1](#)). Note, however, there was somewhat of an upward shift in income ranges between the two groups. For taxpayers who paid the AMT, the first three-quarters fell in income ranges below \$175,000. For taxpayers claiming the AMT Credit, however, the first three-quarters fell in income ranges up to \$200,000. In both cases, the first peak in the number of taxpayers occurred 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 had to pay the AMT tax had, on average, a lower income than those that were eligible to claim the AMT Tax Credit. Recall that these were two different groups of taxpayers because if a taxpayer paid the Iowa AMT in a given tax year, that taxpayer was 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](#)). For corporate AMT, both the peak number of payers and the peak number of Tax Credit claimants fell in the \$1,000,001 - \$25,000,000 range. For AMT payers the percentage in this range was 24.9 percent, while for AMT Credit claimants the percentage in this range was higher at 27.9 percent.

V. Conclusion

This tax credit was most beneficial to those taxpayers who only seldom paid alternative minimum tax. It allowed those taxpayers a chance to recoup the AMT paid when AMT was not due in a later year. Because the tax credit did not expire, the amount of tax credits that were carried forward continued to accumulate while the credit was available. However, the corporate AMT was repealed in 2021. The credit was still available for AMT paid in tax years 1987-2020, up to the excess of regular tax liability over calculated AMT. In tax year 2021, the credit could not exceed regular tax liability. As of tax year 2021, the corporate AMT credit was repealed.

Similarly, the individual AMT was repealed in tax year 2023. Individual AMT payers could have claimed the AMT Tax Credit for tax years 1987-2023, up to the excess of regular tax liability over calculated AMT. For calendar year 2023, the credit could not exceed regular tax liability. As of tax year 2023, the individual AMT credit was repealed.

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

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

Table 1. Iowa Alternative Minimum Tax (AMT) Paid by Tax Type, Tax Years 2012 – 2023

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	326	\$6,229,400	\$19,109	25,689	\$9,909,166	\$386	26,015	\$16,138,566
2015	321	\$5,056,754	\$15,753	28,840	\$10,833,340	\$376	29,161	\$15,890,094
2016	311	\$4,362,147	\$14,026	32,862	\$12,836,614	\$391	33,173	\$17,198,761
2017	320	\$7,007,315	\$21,898	27,182	\$9,811,704	\$361	27,502	\$16,819,019
2018	435	\$11,819,710	\$27,172	25,993	\$9,957,146	\$383	26,428	\$21,776,856
2019	475	\$10,796,499	\$22,729	32,564	\$12,152,449	\$373	33,039	\$22,948,948
2020	495	\$7,005,062	\$14,152	21,928	\$6,660,991	\$304	22,423	\$13,666,053
2021	-	-	-	23,754	\$8,136,445	\$343	23,754	\$8,136,445
2022	-	-	-	25,028	\$8,809,668	\$352	25,028	\$8,809,668
2023	-	-	-	34,369	\$10,067,046	\$293	34,369	\$10,067,046
Average	365	\$7,652,599	\$21,209	26,982	\$9,699,990	\$360	27,255	\$15,439,439

Source: Iowa Department of Revenue IA 6251, IA 4626, and IA 4626F Tax Credits Schedules

Table 2. Iowa Alternative Minimum Tax (AMT) Credit Claims by Tax Type, Tax Years 2011 - 2023

Corporation Income Tax & Franchise Tax*					Individual and Estates & Trusts Income Tax					Corp, Franchise, and Individual Income Tax				
Tax Year	Number of Claims	Total Credits Available	Total Credits Claimed	Credits Carried Forward	Tax Year	Number of Claims	Total Credits Available	Total Credits Claimed	Credits Carried Forward	Tax Year	Number of Claims	Total Credits Available	Total Credits Claimed	Credits Carried Forward
2011	145	\$12,850,649	\$1,212,752	\$11,643,299	2011	13,773	\$17,933,841	\$2,865,454	\$15,137,741	2011	13,918	\$30,784,490	\$4,078,206	\$26,781,040
2012	146	\$15,501,781	\$1,773,483	\$15,556,557	2012	14,910	\$22,095,664	\$3,941,861	\$18,348,239	2012	15,056	\$37,597,445	\$5,715,344	\$33,904,796
2013	167	\$19,679,988	\$4,906,825	\$15,039,651	2013	16,161	\$24,869,353	\$3,620,126	\$21,631,588	2013	16,328	\$44,549,341	\$8,526,951	\$36,671,239
2014	157	\$20,962,617	\$6,775,865	\$14,324,128	2014	17,492	\$29,980,619	\$6,122,313	\$24,395,785	2014	17,649	\$50,943,236	\$12,898,178	\$38,719,913
2015	110	\$17,535,055	\$3,568,690	\$14,003,888	2015	14,374	\$22,041,975	\$2,971,928	\$19,411,111	2015	14,484	\$39,577,030	\$6,540,618	\$33,414,999
2016	89	\$13,391,476	\$1,797,963	\$11,486,015	2016	17,300	\$26,542,947	\$5,095,071	\$21,731,249	2016	17,389	\$39,934,423	\$6,893,034	\$33,217,264
2017	87	\$15,874,596	\$1,564,053	\$10,711,540	2017	14,933	\$30,435,303	\$4,116,665	\$26,551,583	2017	15,020	\$46,309,899	\$5,680,718	\$37,263,123
2018	82	\$14,297,031	\$6,785,919	\$5,238,333	2018	14,984	\$27,475,700	\$4,582,877	\$23,295,908	2018	15,066	\$41,772,731	\$11,368,796	\$28,534,241
2019	162	\$9,758,151	\$5,164,117	\$2,924,402	2019	14,556	\$16,774,803	\$4,091,900	\$12,939,279	2019	14,718	\$26,532,954	\$9,256,017	\$15,863,681
2020	239	\$11,139,655	\$5,653,116	\$3,106,767	2020	13,177	\$13,850,441	\$3,141,991	\$11,076,503	2020	13,416	\$24,990,096	\$8,795,107	\$14,183,270
2021	1546	\$30,027,631	\$4,977,283	\$4,769,726	2021	15,870	\$18,512,380	\$4,332,091	\$14,654,000	2021	17,416	\$48,540,011	\$9,309,374	\$19,423,726
2022	-	-	-	-	2022	8,431	\$11,697,963	\$3,705,608	\$8,410,290	2022	8,431	\$11,697,963	\$3,705,608	\$8,410,290
2023	-	-	-	-	2023	13,595	\$14,542,833	\$10,453,892	\$915,189	2023	13,595	\$14,542,833	\$10,453,892	\$915,189
Average	266	\$16,456,239	\$4,016,370	\$9,891,301	Average	14,581	\$21,288,756	\$4,541,675	\$16,807,574	Average	14,807	\$39,230,151	\$7,940,142	\$25,177,136

Source: Iowa Department of Revenue, IA 6251, IA 4626, and IA 4626F Tax Credits Schedules

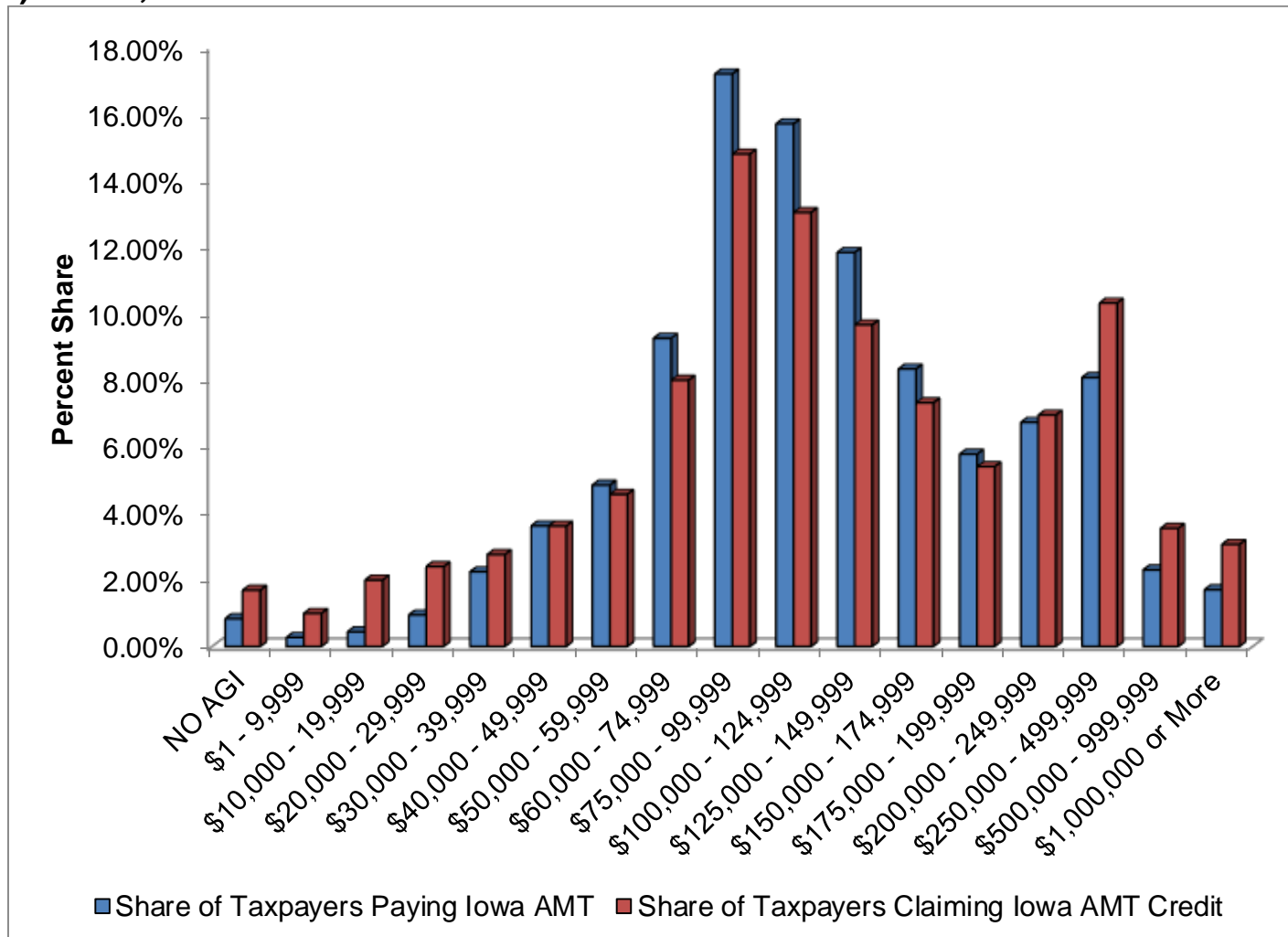
* To avoid disclosing franchise taxpayer data due to small numbers, franchise tax numbers have been combined with corporation income tax numbers.

Table 3. Difference Between Iowa Alternative Minimum Tax (AMT) Paid and Iowa Alternative Minimum Tax (AMT) Credit Claims, Tax Years 2012 - 2023

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	\$5,715,344	\$12,791,255	30.88%
2013	\$15,315,207	\$8,526,951	\$6,788,256	55.68%
2014	\$16,138,566	\$12,898,178	\$3,240,388	79.92%
2015	\$15,890,094	\$6,540,618	\$9,349,476	41.16%
2016	\$17,198,761	\$6,893,034	\$10,305,727	40.08%
2017	\$16,819,019	\$5,680,718	\$11,138,301	33.78%
2018	\$21,776,856	\$11,368,796	\$10,408,060	52.21%
2019	\$22,948,948	\$9,256,017	\$13,692,931	40.33%
2020	\$13,666,053	\$8,795,107	\$4,870,946	64.36%
2021	\$8,136,445	\$9,309,374	(\$1,172,929)	114.42%
2022	\$8,809,668	\$3,705,608	\$5,104,060	42.06%
2023	\$10,067,046	\$10,453,892	(\$386,846)	103.84%
Average	\$15,439,439	\$8,261,970	\$7,177,469	53.51%

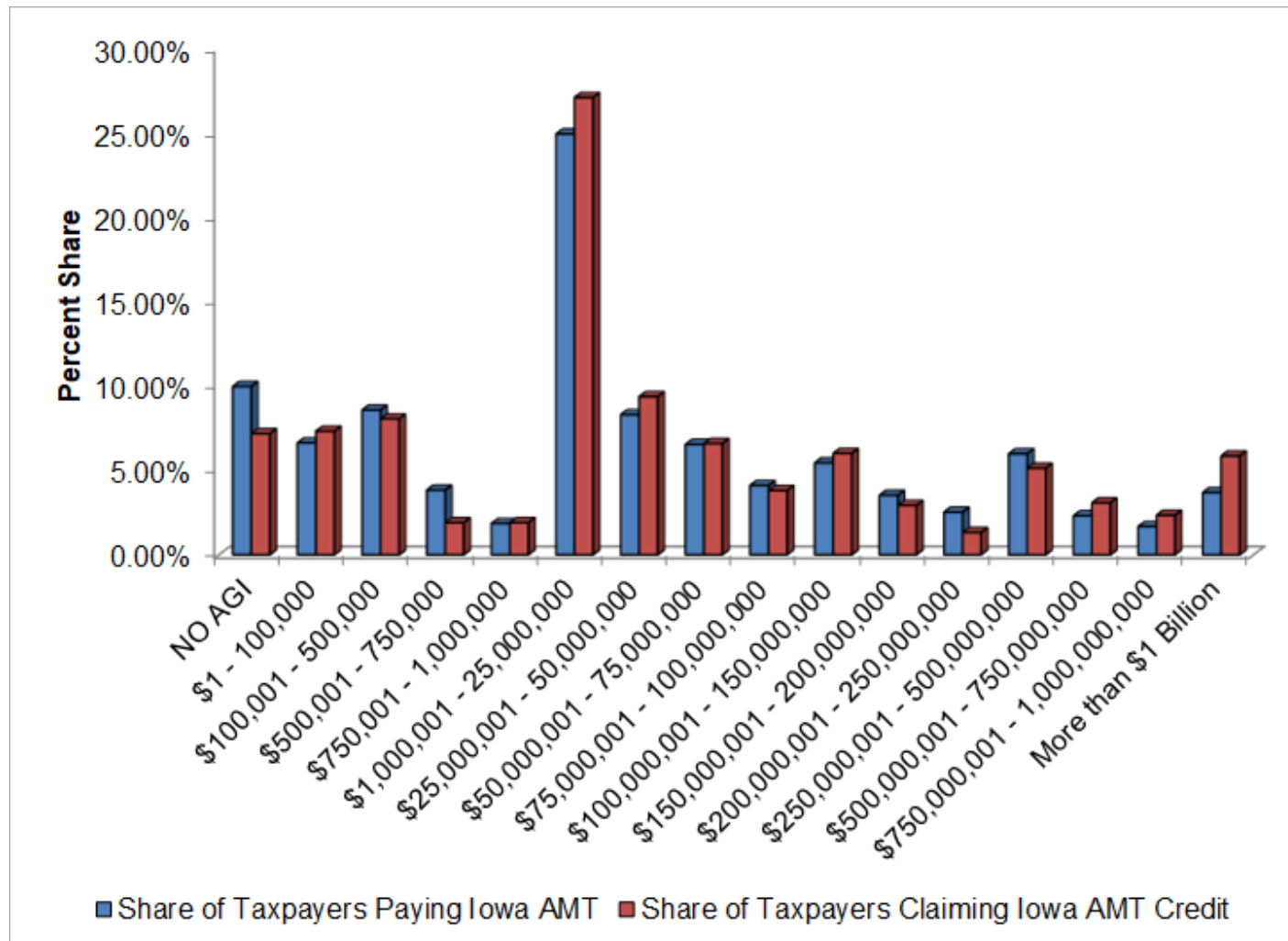
Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 6251, IA 4626, and IA 4626F Tax Credits Schedules

Figure 1. Average Distribution by Adjusted Gross Income of Individual Income Taxpayers Paying Iowa Alternative Minimum Tax (AMT) Versus Taxpayers Claiming the Iowa Alternative Minimum Tax (AMT) Credit, Tax Years 2012-2023



Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 6251, IA 4626, and IA 4626F Tax Credits Schedules

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 2012-2023



Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 6251, IA 4626, and IA 4626F Tax Credits Schedules