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**THE ALTERNATIVE MINIMUM TAX  
THE TAX THAT KEEPS ON TAKING:  
COSTING NEW YORK STATE,  
LONG ISLAND, AND NEW YORK CITY TAX PAYERS  
MILLIONS OF DOLLARS**

Prepared for  
Senator Charles Schumer  
(D, New York)

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## INTRODUCTION

Tax Freedom Day, the day when Americans begin to earn money for themselves, rather than working to pay federal taxes is April 30, 2007. According to the Tax Foundation, this is two days later than the 2006 Tax Freedom Day and 12 days later than in 2003. This is the result from the economic growth that has pushed Americans into higher tax brackets. The one tax where there is no freedom from is the Alternative Minimum Tax (AMT), which preys on those taxpayers who have earned more income while also increasing certain deductions whose benefits are diluted under the AMT.

The Alternative Minimum Tax (AMT) was originally enacted in 1969 to insure that wealthy taxpayers would pay their fair share of federal income taxes. What was discovered at that time was that some wealthy Americans had not paid any federal income taxes, just by cleverly employing tax avoidance strategies allowable under the Internal Revenue Code. The result was that Congress, in order to prevent the rich from avoiding paying their fair share of taxes, enacted the AMT. The AMT has been part of the tax code since, and unlike income taxes that have been indexed according to rises in inflation and cost of living, the AMT and the tax preference items that impact the income taxable for the AMT have never been indexed to inflation. The unintended result is that the AMT has ensnared many middle-class American taxpayers, diluting the tax benefits contained in subsequent and recently enacted tax relief legislation.

For Long Islander's, the tax breaks enacted by the Congress since 2001, which includes expanding child tax credits, reduced tax rates, relief from the "marriage penalty," health insurance costs and tuition paid deductions, among others, have had less impact on taxpayers pocketbooks than originally intended. Married couples, especially those with children and owning their own home, are most vulnerable to the AMT. AMT adds back for tax calculation purposes dependent exemptions, deductions for mortgage interest, state income and local real estate taxes, investment interest, small business depreciation and investment interest. This results in additional taxable AMT income, usually greater than federal taxable income.

The outcome is that those taxpayers living in high property and income tax areas such as in New York State, and in particular Long Island, who normally receive federal tax refunds or pay lower taxes, often wind up paying more due to the AMT, thus significantly offsetting any impact from the enacted tax cuts.

Without action by Congress and President Bush, the Congressional Joint Tax Committee estimates that the number of returns impact by the AMT will increase sharply to 19 million in 2006, from the 1.3 million tax returns in 2000, reaching a peak of 29 million by 2010<sup>1</sup>. This is just over one in four households nationally that will owe the AMT by 2010.

Nina E. Olsen, the National Taxpayer Advocate calls the AMT one of the top two problems faced by taxpayers. She supports the Congressional Joint Tax Committee estimates, and concludes, "Although the AMT was originally enacted to prevent wealthy taxpayers, it now effects substantial numbers of middle-income taxpayers and will, absent of law, effect more than 30 million taxpayers by 2010. By 2007 nearly 95 percent of AMT revenues will be attributable to personal and dependent exemptions, the standard deduction, state and local taxes and miscellaneous itemized deductions."<sup>2</sup> Miscellaneous itemized deductions include tax preparation fees, union dues, and unreimbursed employee expenses. In high tax regions such as New York State and Long Island, where property taxes finance schools and local governments, the AMT impacts the middle class the hardest.

In 2005, the Taxpayer Advocate estimated that nationally 65 percent of married couples with two or more children and with adjusted gross incomes of between 75,000 and \$100,000 would feel the impact of the AMT. This represents more that sixty percent of Long Island tax filers, and includes the 518,841 Long Island families, or 73 percent of the 712,281 Long Island families earning over \$50,000.<sup>3</sup> The following analysis illustrates just how serious the impact is for New York State.



<sup>1</sup> Prante, Gerald and Andrew Chamberlain. *The Tax Foundation*. 9 January 2007.

<sup>2</sup> Olsen, Nina E. *National Taxpayer Advocate Report to Congress*. 14 January 2004.

<sup>3</sup> Cantor, Martin R. *Long Island, The Global Economy and Race: The Aging of America's First Suburb*.

## NEW YORK STATE: SECOND MOST IMPACTED BY AMT

Table 1 reflects that the New York City tri-state area is most impacted by the AMT with New York State ranked second in taxpayers subject to AMT and fifth in the additional AMT Tax Liability per AMT return.

**TABLE 1: IMPACT OF ALTERNATIVE IMPACT BY STATE-2004<sup>4</sup>**

State	% Tax Returns Subject to AMT	National Rank	AMT Tax Paid	National Rank
New Jersey	5.55 %	1	\$ 3,697	30
New York	5.07 %	2	\$ 4,892	5
Connecticut	4.82 %	3	\$ 3,980	17

The latest data from the New York State Taxation and Finance reports that over 8 million tax returns are filed in New York State, with nearly 5.8<sup>5</sup> million tax returns actually paying taxes. Thus, it can be projected that over 294,000 tax returns in New York State in 2004 fell prey to the AMT, costing state taxpayers over \$1.44 billion dollars with a statewide primary and secondary economic impact of over \$3 billion. Additionally, New York State loses nearly \$120 million in needed sales tax revenues.

Evaluating the historical data from the Tax Foundation<sup>6</sup> concerning the growth of AMT suggests that by 2007 over 645,000 New York State Taxpayers will pay the AMT, growing at a projected 30 percent each year reaching 1.5 million tax filers by 2010. This can cost the state as much as \$7.5 billion in lost economic activity and nearly \$300 million in state sales tax revenues.

With New York State being the second most AMT impacted state in the nation, further analysis in Table 2 reveals that the New York City metropolitan area is the most impacted region in New York State.

**TABLE 2: IMPACT OF THE ALTERNATIVE MINIMUM TAX BY MAJOR CITY AREAS-2004<sup>7</sup>**

State	Metropolitan Statist. Area	% Tax Returns Subject to AMT	National Rank	AMT Tax Per Return	National Rank
New York	Nassau/Suffolk	9.25 %	2	\$ 3,799	102
New York	New York City	5.78 %	11	\$ 5,896	9
New York	Newburgh NY/PA	5.03 %	14	\$ 2,833	300

The taxpayers in the New York City metropolitan area are the hardest hit in New York State in terms of taxes paid and economic activity lost. Of the nearly 2.2 million New York City tax filers who have a tax liability, 127,200 will pay AMT costing New York City \$805 million dollars. This is 55.1 percent of the total AMT paid by New York State taxpayers. The lost primary and secondary economic impact of \$ 1.46 billion is almost half of New York State's projected \$3 billion lost economic impact. The lost sales tax revenues to New York City are over \$64 million. Furthermore, New York City lost economic activity costs New York State nearly half of the \$120 million lost state sales tax revenues.

After the Stamford/Norwalk Connecticut region, Long Island is the second most impacted AMT region in the country. Of those who filed tax returns in 2004 and had a tax liability, 91,932 were subject to the AMT, 52,672 from Nassau County and 39,260 from Suffolk County. This costs the Long Island region \$351.5 million of direct economic impact. When the secondary economic impact of \$351.5 million is included, the region loses \$703 million of economic impact and an estimated sales tax revenues \$32.5 million, and account for \$28 million 24 percent of New York States lost sales tax revenues.

The growth for Long Islanders having to pay AMT will mirror New York State's projected experience and grow to 202,000 in 2007 and reach 443,700 tax filers by 2010. The lost regional economic activity could reach levels as high as \$843 million and over \$38 million in local sales taxes, and \$33.7 million in New York State sales taxes.



<sup>4</sup> Tax Foundation. *Impact of Alternative Minimum Tax by State-2004*. 9 January 2007.

<sup>5</sup> 2005 New York State Statistical Yearbook. Tables E-16, E-13.

<sup>6</sup> Tax Foundation. *History of the Alternative Minimum Tax Returns and Liabilities*. 22 February 2007.

<sup>7</sup> Tax Foundation. *Impact of the Alternative Minimum Tax by Major City Areas-2004*. 9 January 2007.

The fact is that in downstate New York, the New York City metropolitan area contains 7 of the top 30 counties in the United States impacted by the AMT. Table 3 illustrates that almost all of the lost New York State sales tax revenues and economic activity are derived from the downstate region, with 5 counties in New York City and its suburbs.

**TABLE 3: IMPACT OF THE ALTERNATIVE MINIMUM TAX BY COUNTY-2004<sup>8</sup>**

State	County	% Tax Returns Subj to AMT	National Rank	Amount Tax Per Return	National Rank
New York	Westchester	12.30 %	1	\$ 5,487	70
New York	Manhattan	10.98 %	3	\$ 8,829	7
New York	Nassau	10.80 %	4	\$ 4,170	423
New York	Rockland	9.72 %	8	\$ 3,365	1,596
New York	Putnam	9.61 %	9	\$ 3,005	2,191
New York	Suffolk	7.80 %	16	\$ 3,325	1,878
New York	Staten Island	5.86 %	30	\$ 3,272	1,773

The other New York City boroughs, to a lesser degree have also been impacted by the AMT and are as follows:

NYC Borough	% Tax Returns Subj To AMT <sup>9</sup>	National Rank	AMT Tax Per Return	National Rank
Queens	2.82 %	152	\$ 3,118	2,014
Brooklyn	2.76 %	159	\$ 3,663	1,026
Bronx	1.68 %	356	\$ 2,498	2,825

Table 4 reflects what the impact on each borough of the AMT. In particular Manhattan and Staten Island have a larger share of the AMT tax filers. The Tax Foundation notes that the 2<sup>nd</sup> highest ranked congressional district in the country impacted by the AMT is the 14<sup>th</sup> Congressional District in Manhattan, and the 6<sup>th</sup> most impacted congressional district is the 8<sup>th</sup>, also in Manhattan. Also included in the rankings are the 17 Congressional District ranked 33<sup>rd</sup>, and Staten Island Congressional District 13 ranked 35<sup>th</sup>.

**TABLE 4: NEW YORK CITY AMT IMPACT BY BOROUGH-2004<sup>10</sup>**

Boroughs	% Tax Returns Subj To AMT	Impacted Tax Returns	AMT Tax Per Return	Total AMT Taxes Paid
Manhattan	10.98 %	70,788	\$ 8,829	\$ 624,987,252
Staten Island	5.86 %	10,392	\$ 3,272	34,002,625
Queens	2.82 %	20,364	\$ 3,118	59,325,079
Brooklyn	2.76 %	19,388	\$ 3,663	71,018,244
Bronx	1.68 %	6,268	\$ 2,498	15,657,464

The New York City tax filers impacted by the are expected to increase from the 127,000 in 2004, to 214,968 in 2006, to 279,458 in 2007 to 613,970 by 2010.

As the focus of AMT's impact is narrowed from counties to local communities, what becomes apparent is that of the 20 United States Congressional Districts most heavily affected by the AMT, 9 districts or 45 percent are in New York State, with 25 percent of New York's impacted congressional districts on Long Island. As Table 4 indicates, AMT impacted Long Islanders can be found in each of Long Island's congressional districts. The cost to each of the congressional districts is illustrated in Table 4. Table 5 estimates the impact on five representative Long Island Families, base upon historical AMT data compiled by the Tax Foundation.



<sup>8</sup> Tax Foundation. *Impact of the Alternative Minimum Tax by Major County-2004*. 9 January 2007.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

**TABLE 5: LONG ISLAND CONGRESSIONAL DISTRICTS MOST HEAVILY EFFECTED BY AMT-2004<sup>11</sup>**

State	Congressional District	% Tax Returns Subj To AMT	National Rank	Amt Per Tax Return	Cost per Cong. District
New York	2	9.25 %	10	\$ 3,482	\$ 70,423,450
New York	3	9.22 %	12	\$ 3,576	72,324,600
New York	4	8.59 %	15	\$ 3,569	65,619,634
New York	5	7.61 %	17	\$ 5,237	86,661,876
New York	1	7.56 %	18	\$ 3,415	56,511,420
					\$ 351,540,980

Each of the following projections in Table 6 are based upon the similar deductions of tax preference items impacted by the AMT of mortgage interest expense of homeownership, personal exemptions, and the personal income and property taxes.

**TABLE 6: ESTIMATED AMT IMPACT ON LONG ISLAND AND NEW YORK CITY FAMILIES**

Community	Family Size	Income	2006 AMT	2007 AMT	2010 AMT
Dix Hills	4 Persons	\$ 86,000	\$ 1,438	\$ 1,725	\$ 2,295
Jamesport	4 Persons	\$120,000	\$ 4,200	\$ 5,040	\$ 6,708
Massapequa	5 Persons	\$171,000	\$ 7,200	\$ 8,640	\$11,500
Rockville Ctr	5 Persons	\$292,000	\$13,700	\$16,440	\$21,828
Brookhaven	3 Persons	\$120,000	\$ 3,377	\$ 4,052	\$ 5,393
			Average AMT Liability		
			2006	2007	2010
Brooklyn			\$ 5,274	\$ 6,329	\$ 8,423
Queens			\$ 4,489	\$ 5,388	\$ 7,171
Manhattan			\$12,713	\$15,256	\$20,305
Bronx			\$ 3,597	\$ 4,317	\$ 5,746
Staten Island			\$ 4,711	\$ 5,654	\$ 7,525

## CONCLUSION

What is apparent is that New York State and in particular Long Island and New York City are carrying a significant burden of the AMT collected annually by the Internal Revenue Service. What is also clear is that without indexing for inflation or cost of living, more Long Islanders and New York City Residents will be caught in the grasp of the AMT, which by the year 2010 will impact nearly 30 million taxpayers nationally, and almost all of the Long Islanders and most New York City taxpayers with incomes in excess of \$60,000.



<sup>11</sup> Tax Foundation. *Congressional Districts Most Heavily Affected by Amt-2004*. 9 January 2007.

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Martin R. Cantor has a Bachelor of Science Degree in Accounting from Brooklyn College of the City University of New York, and a Master of Arts Degree in Interdisciplinary Studies from Hofstra University, focusing on the socio-economic relationships between education, household income, community and workforce development for New York City and Long Island. He has served as Suffolk County Economic Development Commissioner (New York State's largest suburban county), brought *Computer Associates* to Suffolk County, and created over 23,000 jobs with an estimated \$1.4 billion annual payroll economic impact. He has served as: Chief Economist, New York State Assembly Subcommittee for the Long Island Economy; Senior Fellow at the White Plains, New York based Institute for Socioeconomic Studies - a public policy think tank concentrating on poverty in America and senior citizen quality of life; Chair of the Long Island Development Corp; a building trades labor/management arbitrator; a consultant to the Nassau Interim Financial Authority; a faculty member in the Brooklyn College Department of Economics; Executive Director of the Patchogue Village Business Improvement District; and Director of Economic Development and Chief Economist for Sustainable Long Island, and the Long Island Fund for Sustainable Development, providing financial, technical assistance to businesses and not-for-profit organizations. His work is included in the *National Tax Rebate-A New America With Less Government*, and has prepared downtown revitalization plans for Long Island and New York City neighborhoods featuring arts districts, economic restructuring, waterfront projects and community organizing. He was the architect of the Nassau County Comptroller's debt restructuring plan for resolving Nassau County's fiscal crisis; has been a Long Island Business Journal columnist; and has authored: federal, state and local legislation; economic impact analyses; socio-economic profiles of the New York City and Long Island economic, employment and educational bases; annual reports on the State of the Long Island Economy; and a convention center feasibility study.

He is a Certified Public Accountant in private practice; Director of the Long Island Economic and Social Policy Institute at Dowling College; a consulting economist and economic development and planning consultant to counties, towns, villages, Industrial Development Agencies, and communities; the economic development advisor to the Suffolk County Executive; chairman of the Suffolk County Downtown Revitalization Advisory Panel; Chief Economist for Long Island Development Corp; and Chairman of the Suffolk County Judicial Facilities Agency which financed the acquisition of the Cohalan State Court Complex. He provides economic and business commentary on television and radio; is a columnist for *Long Island Business News*, Long Island's largest business weekly; has appeared in *The New York Times* and *Newsday*, and has been syndicated nationally by *Newsday*, *Bridge News* and *Knight-Ridder/Tribune News Service*. He is an Honorary Member of Delta Mu Delta - The National Honor Society in Business Administration and has been recognized by the National Association of Counties for innovative uses of Industrial Revenue Bonds, for international trade promotion initiatives, for downtown revitalization policies, and for minority business incubator initiatives. He was invited by Dr. William Julius Wilson of Harvard University's John F. Kennedy School of Government to present his paper entitled *Race Neutral Sustainable Economic Development*. He is the author of the recently published *Long Island, The Global Economy and Race: The Aging of America's First Suburb*.



