

**Statement of Michael J. Graetz, Professor of Law, Yale Law School**  
**At a Hearing of the Senate Finance Committee**  
**on the Alternative Minimum Tax (AMT)**  
**June 27, 2007**

Mr Chairman and Members of the Committee---

Thank you for inviting me to testify here today on this important subject.

Let me begin with a thought experiment: Assume Congress – without making any other substantive changes -- renamed the regular income tax the “Alternative *Maximum* Tax” (which people would no doubt call the “AMT”) and, at the same time relabeled the current AMT the “regular” tax. Then, would we be here today talking about repealing or restructuring the AMT or the regular tax?

This is not a crazy question because going forward, if the law is not changed, the current AMT will raise more revenue than the regular tax – and would do so generally by applying lower rates to a broader base—everyone’s hallmark approach to fundamental tax reform.

My fundamental point in suggesting this thought experiment is simply this: The AMT does not exist in a vacuum separate from the rest of the tax code. Indeed, discontinuities between changes to the regular tax and the AMT have brought us to the unsatisfactory state of affairs we face here today. The number of taxpayers subject to the AMT depends on how its tax base and rates are linked to the regular income tax base and rates. If the AMT exemption had been indexed for inflation, similarly to the indexing of personal exemptions and rate brackets under the regular tax, and had the relationship between the AMT rates and the regular tax rates been maintained when the latter were reduced in 2001, we would not be here today worrying about a “stealth tax” that will affect “millions of unsuspecting taxpayers.” But, as we all know, lowering the AMT rates in 2001 to maintain their relationship to the regular rates would have made it impossible to fit all of the 2001 cuts within the limits of that year’s budget resolution—so the AMT problem was put off until another day.

The vast bulk of taxpayers recently affected by the AMT due to tax cuts enacted during the 2001-2006 period are not paying more tax than they would have without those cuts. Instead, the AMT has reduced the size of the tax cuts they would otherwise have received. (Having paid the AMT myself last year, I should probably say “we” rather than “they”.) But since the AMT and the regular income tax were not considered together in fashioning the 2001 Act, the distribution of the AMT’s claw backs of the 2001 tax cuts are rather haphazard, to put it gently. And the complexity and lack of transparency of running the two

systems simultaneously, to be sure, increases taxpayers' compliance costs and makes routine tax planning more difficult.

As you know well, Mr. Chairman, between 2003 and 2006 Congress has enacted short-term patches to increase the AMT exemption amounts and to allow nonrefundable personal credits to be used under the AMT. In so doing, you have held down the number of AMT taxpayers to less than there would have been under the pre-2001 law. The question now before you is whether to continue "patching" the AMT, to restructure it substantively, or to repeal it.

As much as I resist saying this, I believe the best course Congress can take now is to continue AMT patches through 2009 or 2010 and postpone dealing substantively with the AMT until then, when you will necessarily have to take up fundamental aspects of our income tax system. To do otherwise—to enact substantive reform of the AMT now before you know which aspects of the current regular tax structure enacted since the year 2000 you will extend and which you will let expire – would be to make the 2001 mistake in reverse: to treat the AMT as an issue separate from the basic issues of the regular income tax, issues that you will necessarily soon confront given the large number of important provisions that are currently scheduled to terminate in 2010. (All of the income tax provisions of the 2001 Act expire in 2010, along with reduced rates for capital gains and dividends, as well as the estate tax repeal enacted in 2001. A few of the most important expiring provisions are listed at the end of this statement in Table 1.)

Please do not misunderstand what I am saying here today. I agree with many of the points made by other witnesses who have pointed out defects in the AMT. It has numerous problems that should be fixed going forward --if it is to be retained. However, I do not think it is possible to answer the question what kind of minimum tax, if any, we should have without knowing what kind of regular income tax we have. And the uncertainties created by the vast number of expiring provisions simply do not allow us now to know the answer to the latter question. Let me use three important differences between the regular tax and the AMT to illustrate my point. (A list of the differences between the AMT and the regular tax is set forth at the end of this statement in Table 2.)

In recent years, the difference in treatment of deductions for state and local taxes has accounted for more than half the difference between regular taxable income and alternative minimum taxable income (AMTI) – 62.7% in 2006, according to the Staff of the Joint Committee on Taxation. Under the regular income tax, state and local income and property taxes are fully deductible, and recently taxpayers have been allowed to choose between deducting state and local sales and income taxes. Under the AMT, no deduction is allowed for state and local taxes. Thus, one of the major effects of moving people from the AMT to the regular tax would be to increase the allowance of state and local tax deductions in exchange for higher tax rates. Is this wise policy?

In policy and political circles, the appropriate treatment of state and local taxes is controversial. President Bush's tax reform panel, for example, recommended eliminating the deduction entirely on the grounds that such taxes were often payments for benefits received, that allowing a deduction advantaged public provision of services over private provision, and that allowing a federal deduction requires taxpayers in low-tax states to subsidize those who live in high-tax states. Presumably for similar reasons, the tax reform bill introduced by Senator Ron Wyden (D. OR) and Representative Rahm Emanuel (D. IL) would cut back substantially on the deduction for state and local taxes, especially for higher-income taxpayers, by substituting a refundable tax credit for 10% of state and local taxes for the unlimited deduction under the regular income tax.\*

I can readily understand why the Chairman of the House Ways and Means Committee, Mr. Rangel, prefers the regular tax treatment of state and local taxes to that of the AMT: New York ranks second (to California) in the amounts deducted for state and local taxes. But Mr. Chairman your state of Montana ranks 46<sup>th</sup>, so it is far less clear why you should be eager to improve the deductibility of state and local taxes in exchange for higher rates. Mr. Grassley, your home state of Iowa ranks 26<sup>th</sup>. By my count, only seven members of this committee, five Democrats and two Republicans, represent states that rank in the top half in the amounts of state and local taxes deducted on federal returns. (A complete list of these deductions by state is contained at the end of this statement in Table 3.) Needless to add, AMT burdens by state are highly correlated with the level of state and local taxes. Indeed, the top 23 states by aggregate state and local tax deductions are also the top 23 by aggregate AMT payments, although not precisely in the same order. (A state-by-state list of AMT payments is contained at the end of this statement in Table 4.)

The essential point is this: both Republican and Democratic tax reform proposals would restrict or eliminate the deduction for state and local taxes to achieve lower income tax rates. That is also the choice of the current AMT, but not of the regular tax. By 2010, when the tax rates of current law are scheduled to increase, this is a choice Congress will have to confront. Why prejudge that choice now when only the AMT is being considered?

A second difference between the AMT and the regular tax, although much less significant than the treatment of state and local taxes, is that the latter contains a separate rate schedule for unmarried taxpayers with dependents—the so-called head-of-household rate schedule—while the former distinguishes only between single and married taxpayers. Which is the better rule for the higher income taxpayers who are predominately now affected by the AMT? This is a difficult question. The head-of-household rate schedule was introduced into the income tax more than half a century ago in 1950, at a time when the demographics of our nation were very different than they are today, and decades

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\* It is not clear to me why the Wyden-Emanuel bill would make this particular credit refundable.

before Congress added to the Code a separate rate schedule for single persons and subsequently substantial tax credits for children. The head-of-household rate schedule provides important tax relief for many lower-income single parent households but also now contributes substantially to marriage penalties in the income tax. Even without a separate schedule for heads of households, the AMT exemption structure also imposes substantial marriage penalties. By 2010 Congress will have to reconsider both the rate schedules and expiring marriage penalty relief provisions under the regular tax. If an AMT is retained, its exemption levels, rate schedule and marriage penalties should be re-evaluated at the same time. Why is it sound to restructure the AMT now separately without knowing how those parameters will change under the regular tax?

Let me offer one final example. The AMT allows home mortgage interest to be deducted only if the borrowing is used to improve, buy or build the taxpayer's home, while the regular tax often allows deductions if the borrowing is secured by the taxpayer's home no matter what the loan proceeds are used for. Although others might disagree, in my view, the AMT rule is the better rule. The President's tax reform panel would have cut back the mortgage interest deduction even further. Again, the scope of the interest deduction is an issue that should be taken up in the broader context of considering all the provisions expiring in 2010. Shifting the balance now in favor of the rule under the regular income tax does not seem prudent or wise.

Mr. Chairman, at a minimum, the AMT needs restructuring, if not outright repeal. But one could say much the same about the regular income tax. Indeed, for many years, I have been urging that we greatly reduce our reliance on income taxation and that we enact a value added tax in order to eliminate all income taxes for the vast majority of Americans. A VAT at a rate of 10-14% could finance a \$100,000 income tax exemption, for example, and allow a low-rate income tax to apply to incomes above that amount. In any event, when the time comes to consider major income tax reform, as it soon will, either the AMT or the regular tax might serve as a starting point. Significant structural revisions will be necessary no matter where you start. Given the agenda-forcing nature of all the tax law provisions scheduled to expire in 2010, continuing to "patch" the AMT by retaining the current exemption levels and indexing them for inflation from 2007 through 2009 or 2010 in order to limit its reach in the meantime seems the wisest course for now.

Thank you. I would be happy to answer any questions.

**Table 1  
Selected Tax Sunsets in 2010**

	2007	2011
<b>Individual Income Tax Rates</b>	Rate brackets of 35, 33, 28, and 25%	Rates revert back to 39.6, 36, 31 & 28%
<b>10% Bracket</b>	10% bracket with upper level up to \$7K / \$14K for single/joint filers, subject to annual increases to reflect cost of living adjustment	Bracket eliminated; lowest bracket reverts to 15%
<b>15% Bracket for Joint Filers</b>	Top of bracket up to 200% of top of single filer bracket ("single filer")	Top of bracket reverts back to 167% of top of single filer bracket
<b>Capital Gains</b>	Tax rate is 5/15%	Tax rate reverts back to 10/20%
<b>Dividends</b>	Tax rate is 5/15%	Taxed at ordinary income rates
<b>Estate Taxes</b>	Top rate falls to 45%; \$2 million exemption	Reverts back to 55%; exempt amount declines back to \$1 million
<b>Standard Deduction for Joint Filers</b>	Up to 200% of standard deduction for single filer	Reverts back to 167% of single filer's deduction
<b>Child Credit</b>	\$1,000 per child	Back to \$500 per child

**Table 2**

**Regular Tax and Alternative Minimum Tax Provisions**

Provisions	Treatment under regular tax	Treatment under AMT
<b>Marginal tax rates</b>	10%, 15%, 25%, 28%, 33%, and 35%. Brackets are indexed for inflation.	26% and 28% (32.5% and 35% for taxpayers in the phaseout range of exemptions). Not indexed for inflation.
<b>Standard deduction/exemption</b>	Deduction of \$10,300 for married taxpayers filing jointly, \$5,150 for single taxpayers, and \$7,550 for heads of households allowed in 2006 for those who do not itemize deductions. Indexed for inflation.	AMT exemption of \$62,500 for married taxpayers filing jointly and \$42,500 for single taxpayers and heads of household in 2006; \$45,000 and \$33,750 thereafter (not indexed for inflation). Exemption phases out at 25% rate for high-income taxpayers.
<b>Personal exemptions</b>	Deduction of \$3,300 per family member and dependent allowed against regular tax in 2006. Indexed for inflation. Phased out for high-income taxpayers.	Not allowed in addition to AMT exemption.
<b>Head of household status</b>	Single heads of household qualify for lower tax rates and larger standard deductions than singles.	Heads of household face the same tax rates and AMT exemption as singles.
<b>Itemized deductions</b>	Allowed under regular tax if standard deduction is not taken. Itemized deductions phase out at 3% rate for taxpayers with higher incomes (certain items do not phase out).	If deductions are itemized under regular tax, tax preference items are subtracted from the deductions for AMT purposes. No phaseout for higher-income taxpayers.

<b>State and local tax deductions</b>	Income and property taxes are allowed as itemized deductions. Sales taxes are allowed as an alternative to income taxes.	Not allowed.
<b>Miscellaneous deductions</b>	Miscellaneous expenses including tax preparation fees, unreimbursed employment expenses, and certain legal fees in excess of 2% of AGI are allowed as itemized deductions.	Not deductible.
<b>Home mortgage interest</b>	Mortgage interest for the first or second home and second mortgages and home equity lines are deductible subject to certain limits.	Only deductible if the proceeds are used to improve, buy, or build the taxpayer's home.
<b>Unreimbursed medical expenses</b>	Expenses in excess of 7.5% of AGI are allowed as itemized deductions.	Expenses in excess of 10% of AGI are allowed as itemized deductions.
<b>Treatment of capital gains and dividends</b>	Dividends and capital gains taxed at 5% and 15%; 0% and 15% in 2008. Capital gains taxed at 10% and 20% from 2011 onwards while dividends are taxed as regular income.	Same.
<b>Net operating loss</b>	Deducted from taxable income.	Not deductible, but may be carried forward to offset future income.
<b>Incentive stock options</b>	Exercising an ISO generates no tax liability. Selling the stock generates capital gains taxes on the difference of the sale price and the option price.	Exercising a stock option generates taxable income equal to the difference between the exercise price and the option price if the stock is not sold within the same year. Selling the stock generates capital gains taxes on the difference between the sale price and the exercise price.
<b>Other timing preferences</b>	Depreciation of equipment, oil depletion allowances, allowances for intangible drilling costs, or mining exploration and development costs are allowed under regular tax.	Deductions for timing preferences are allowed at a slower rate under the AMT. These preferences generate the AMT credit, which can be

		taken against regular tax liability in the future years. However, these credits cannot be used to lower regular tax liability below the tentative liability for that year.
<b>Child, adoption, and savers credits</b>	Allowed against regular tax.	Allowed against AMT until 2010.
<b>Refundable credits</b>	Allowed against regular tax.	Same.
<b>Foreign tax credit</b>	Allowed against regular tax.	Same.
<b>Nonrefundable personal credits other than above</b>	Allowed against regular tax.	Allowed against AMT through 2006. Not allowed thereafter.
<b>Business tax credits</b>	Allowed against regular tax.	Only certain ones allowed.

Leonard E. Burman and David Weiner, Suppose They Took the AM Out of the AMT? The Urban–Brookings Tax Policy Center Discussion Paper No. 25, August 2005, Table 2, updated.

**Table 3**

State and Local Tax Deductions by State Tax Year 2002

Rank	State	Number of Returns (millions)	Percent of Returns Claiming Deduction	Percent of Returns in state	Amount (\$billions)	Percent of Amount Claimed	Average Amount	Percent of Federal Income Taxes Paid	State and Local Deduction as Share Of State AGI
1	California	5.9	13	39	52.3	17	\$8,884	13.2	6.8
2	New York	3.3	7.4	38.8	37.1	12	\$11,098	8.7	8.2
3	New Jersey	1.8	4	44.6	18.2	5.9	\$10,003	4.6	7.5
4	Illinois	2.1	4.6	36.3	13.5	4.4	\$6,475	5.1	4.7
5	Ohio	1.9	4.3	35.2	13	4.2	\$6,721	3.4	5.8
6	Pennsylvania	1.9	4.1	32.5	12.3	4	\$6,548	4.1	4.8
7	Massachusetts	1.2	2.7	40.5	10.8	3.5	\$8,655	3.3	6.2
8	Michigan	1.7	3.8	38	10.5	3.4	\$6,099	3.2	5.1
9	Maryland	1.3	2.8	48.7	10	3.2	\$7,944	2.3	7.2
10	Virginia	1.4	3	40.7	9.2	3	\$6,666	2.9	5.3
11	Texas	2	4.5	21.9	8.7	2.8	\$4,288	6.9	2.2
12	Georgia	1.4	3.2	39.1	8.5	2.8	\$5,960	2.6	5.2
13	North Carolina	1.4	3	37.4	8.5	2.8	\$6,252	2.2	5.6
14	Florida	2.1	4.7	27.5	7.9	2.6	\$3,707	6.1	2.3
15	Wisconsin	1	2.2	39.3	7.8	2.5	\$7,692	1.7	6.9
16	Connecticut	0.7	1.6	43.7	7.6	2.5	\$10,424	2.3	7
17	Minnesota	1	2.2	42.3	6.9	2.2	\$6,804	1.9	5.9
18	Oregon	0.7	1.5	42.2	4.8	1.6	\$7,222	0.9	7.2
19	Indiana	0.9	2	32.6	4.8	1.5	\$5,192	1.7	4.1
20	Missouri	0.8	1.8	32.1	4.7	1.5	\$5,768	1.6	4.5
21	Colorado	0.9	1.9	42.1	4.6	1.5	\$5,293	1.7	4.5
22	Arizona	0.9	1.9	39	4.2	1.4	\$4,816	1.5	4.3
23	South Carolina	0.6	1.3	33.4	3.4	1.1	\$5,629	0.9	4.9
24	Kentucky	0.6	1.2	32	3.4	1.1	\$6,028	0.9	5
25	Washington	1	2.1	34.3	3.1	1	\$3,262	2.4	2.3
26	Iowa	0.4	1	32.9	2.5	0.8	\$5,717	0.7	4.7
27	Kansas	0.4	0.9	31.8	2.4	0.8	\$6,230	0.8	4.7
28	Oklahoma	0.5	1	31	2.3	0.8	\$5,133	0.8	4.3
29	Alabama	0.6	1.3	30.9	2.1	0.7	\$3,624	1	2.9
30	Utah	0.4	0.9	41.5	2	0.7	\$5,089	0.5	5.1
31	Nebraska	0.2	0.5	30.8	1.6	0.5	\$6,591	0.5	5.1
32	Rhode Island	0.2	0.4	37.3	1.5	0.5	\$8,259	0.4	6.7
33	Maine	0.2	0.4	32.3	1.4	0.5	\$7,301	0.3	6

34 Louisiana	0.4	0.9	21.7	1.4	0.5	\$3,523	1	2.1
35 New Hampshire	0.2	0.5	36.1	1.4	0.5	\$6,126	0.5	4.4
36 Arkansas	0.3	0.6	25	1.4	0.4	\$4,883	0.5	3.4
37 Tennessee	0.6	1.3	22.4	1.2	0.4	\$2,161	1.6	1.2
38 New Mexico	0.2	0.5	27.3	1.1	0.4	\$5,076	0.4	3.9
39 Mississippi	0.3	0.6	23.4	1.1	0.4	\$3,966	0.5	2.8
40 Idaho	0.2	0.5	36.7	1.1	0.3	\$5,135	0.3	5
41 Nevada	0.4	0.8	35.7	1	0.3	\$2,904	0.9	2.2
42 Hawaii	0.2	0.4	33.6	1	0.3	\$5,299	0.3	4.3
43 District of Columbia	0.1	0.2	40.1	1	0.3	\$9,234	0.3	6.7
44 Delaware	0.1	0.3	37.5	0.8	0.3	\$5,492	0.3	4.3
45 West Virginia	0.1	0.3	18.9	0.8	0.2	\$5,325	0.3	2.9
46 Montana	0.1	0.3	32.1	0.7	0.2	\$5,296	0.2	5
47 Vermont	0.1	0.2	32.4	0.7	0.2	\$6,926	0.2	5.5
48 North Dakota	0.1	0.1	19.5	0.3	0.1	\$4,471	0.1	2.4
49 Alaska	0.1	0.2	24.5	0.2	0.1	\$2,864	0.2	1.6
50 South Dakota	0.1	0.1	16.4	0.2	0.1	\$2,778	0.2	1.3
51 Wyoming	0	0.1	20.4	0.1	0	\$2,761	0.2	1.3
United States	45.4	100	34.7	308.7	100		100	5.1

Source: Internal Revenue Service, Individual Tax Statistics — State Income for 2002 and 2003, Tax Year 2002: Unpublished Version.

Available at <http://www.irs.gov/taxstats/article/0,,id=103106,00.html>.

Source: Kim Rueben, The Impact of Repealing State And Local Tax Deductability, Tax Analysts Special Report, State Tax Notes, August 15, 2005, Table 1.

**Table 4**

**Alternative Minimum Tax by State, Tax Year 2004**

State	Number of returns			AMT			Percent of Returns on AMT in State		
	All	Taxable	On AMT	Total (\$1,000s)	Average per Return (\$)	Percent of Income Tax	All Returns	Taxable Returns	Rank
<b>United States</b>	<b>133,092,565</b>	<b>91,150,187</b>	<b>3,146,323</b>	<b>12,895,393</b>	<b>4,099</b>	<b>0.02</b>	<b>2.36</b>	<b>3.45</b>	N/A
Alabama	1,910,403	1,200,871	14,056	56,239	4,001	0.65	0.74	1.17	46
Alaska	345,209	273,548	2,382	8,021	3,367	0.43	0.69	0.87	50
Arizona	2,372,519	1,609,749	30,907	129,576	4,192	0.96	1.30	1.92	35
Arkansas	1,136,031	710,996	12,403	41,750	3,366	0.93	1.09	1.74	37
California	15,327,238	10,385,782	606,578	2,908,043	4,794	2.55	3.96	5.84	4
Colorado	2,110,355	1,520,216	32,056	139,737	4,359	1.00	1.52	2.11	31
Connecticut	1,665,154	1,273,952	80,333	319,740	3,980	1.66	4.82	6.31	3
Delaware	395,657	293,062	6,468	28,885	4,466	1.11	1.63	2.21	24
District of Columbia	277,884	202,475	11,763	59,075	5,022	2.22	4.23	5.81	5
Florida	8,173,271	5,430,213	118,535	596,523	5,032	1.08	1.45	2.18	26
Georgia	3,782,867	2,443,152	73,066	271,859	3,721	1.31	1.93	2.99	13
Hawaii	606,129	432,867	9,748	42,105	4,319	1.35	1.61	2.25	23
Idaho	594,282	389,326	8,250	31,566	3,826	1.28	1.39	2.12	29
Illinois	5,762,889	4,010,524	112,129	381,265	3,400	0.94	1.95	2.80	15
Indiana	2,854,911	1,992,239	29,098	99,701	3,426	0.72	1.02	1.46	43
Iowa	1,334,499	959,238	17,047	53,578	3,143	0.90	1.28	1.78	36
Kansas	1,229,497	850,067	19,230	68,108	3,542	1.10	1.56	2.26	22
Kentucky	1,757,624	1,185,725	23,839	63,381	2,659	0.84	1.36	2.01	32
Louisiana	1,869,153	1,131,216	18,142	56,262	3,101	0.74	0.97	1.60	42
Maine	618,852	445,042	11,657	46,299	3,972	1.72	1.88	2.62	19
Maryland	2,635,590	1,964,764	102,793	359,570	3,498	1.80	3.90	5.23	6
Massachusetts	3,061,220	2,340,805	116,120	458,767	3,951	1.70	3.79	4.96	7
Michigan	4,561,087	3,191,038	69,421	213,634	3,077	0.85	1.52	2.18	27
Minnesota	2,407,792	1,800,407	57,474	219,750	3,823	1.42	2.39	3.19	11
Mississippi	1,165,951	675,030	7,855	23,045	2,934	0.60	0.67	1.16	47
Missouri	2,585,513	1,781,352	34,641	130,348	3,763	1.03	1.34	1.94	34
Montana	439,714	286,667	6,070	24,903	4,103	1.53	1.38	2.12	30
Nebraska	808,780	565,621	13,263	47,346	3,570	1.24	1.64	2.34	20
Nevada	1,092,600	783,790	13,525	68,883	5,093	0.81	1.24	1.73	38
New Hampshire	643,076	491,117	11,196	40,973	3,660	0.94	1.74	2.28	21
New Jersey	4,107,118	3,015,128	227,857	842,462	3,697	2.24	5.55	7.56	1
New Mexico	827,182	521,483	8,796	33,017	3,754	0.99	1.06	1.69	39
New York	8,625,432	5,929,874	436,985	2,137,635	4,892	2.96	5.07	7.37	2
North Carolina	3,769,920	2,487,478	69,635	263,896	3,790	1.44	1.85	2.80	14
North Dakota	305,030	217,199	2,355	6,664	2,830	0.53	0.77	1.08	48
Ohio	5,447,064	3,923,585	120,645	429,558	3,561	1.61	2.21	3.07	12
Oklahoma	1,476,128	949,554	15,914	59,242	3,723	0.91	1.08	1.68	41
Oregon	1,604,383	1,111,399	37,035	158,431	4,278	2.01	2.31	3.33	10
Pennsylvania	5,811,227	4,127,024	114,544	377,134	3,292	1.14	1.97	2.78	16
Rhode Island	500,314	368,702	13,478	52,556	3,899	1.71	2.69	3.66	8
South Carolina	1,844,497	1,189,004	26,054	92,914	3,566	1.19	1.41	2.19	25
South Dakota	362,240	246,473	2,141	8,120	3,793	0.49	0.59	0.87	51
Tennessee	2,606,931	1,735,014	17,623	76,682	4,351	0.58	0.68	1.02	49
Texas	9,431,995	5,915,840	118,352	414,662	3,504	0.74	1.25	2.00	33
Utah	996,414	646,503	13,765	47,781	3,471	1.09	1.38	2.13	28
Vermont	306,271	223,210	5,883	24,721	4,202	1.69	1.92	2.64	18
Virginia	3,491,196	2,580,266	89,067	298,749	3,354	1.21	2.55	3.45	9
Washington	2,860,940	2,101,597	35,311	150,265	4,255	0.78	1.23	1.68	40
West Virginia	747,838	502,407	6,169	20,440	3,313	0.75	0.82	1.23	44
Wisconsin	2,621,165	1,927,602	51,916	172,573	3,324	1.25	1.98	2.69	17
Wyoming	243,718	174,048	2,108	11,547	5,478	0.74	0.86	1.21	45
Other areas [1]	1,579,815	635,946	60,645	201,341	3,320	3.45	3.84	9.54	N/A

[1] Includes, for example, returns filed from Army Post Office and Fleet Post Office addresses by members of the armed forces stationed overseas; returns filed by other U.S. citizens abroad; and returns filed by residents of Puerto Rico with income from sources outside Puerto Rico or with income earned as U.S. Government employees.

NOTES: (a) This table presents aggregates of all returns filed and processed through the Individual Master File (IMF) system during Calendar Year 2005, including any returns filed for tax years preceding 2004.

(b) In general, during administrative or Master File processing, taxpayer reporting discrepancies are corrected only to the extent necessary to verify the income tax liability reported.

Most of the other corrections to the taxpayer records used for these statistics could not be made because of time and resource constraints. The statistics in this table should, therefore, be used with the knowledge that some of the data have not been perfected or edited for statistical purposes.

(c) Classification by State was usually based on the taxpayer's home address. However, some taxpayers may have used the address of a tax lawyer, or accountant, or the address of a place of business; moreover, such addresses could each have been located in a State other than the State in which the taxpayer resided.

(d) For explanation of the tax law changes which could affect the year-to-year analysis of data, refer to the respective years' "Individual Income Tax Returns, Preliminary Data" article published in the SOI Winter Bulletin. For further explanation of the tax terms, refer to the "Individual Income Tax Returns," Publication 1304.

SOURCE: IRS, Statistics of Income Division, Individual Master File System, January 2006, and Tax Policy Center.

<http://www.taxpolicycenter.org/TaxFacts/TFDB/TFTemplate.cfm?Docid=536>