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Minnesota's Individual Alternative Minimum Tax

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The individual alternative minimum tax (AMT) is designed to ensure high-income taxpayers do not avoid paying tax entirely by claiming deductions and other tax preferences. House Research modeling implies the tax raised about $15.4 million from around 4,400 returns in tax year 2023.

Alternative Minimum Taxes (AMT)

The federal and state alternative minimum taxes require taxpayers who benefit heavily from some tax preferences to pay a minimum amount of tax relative to their incomes. The AMT requires taxpayers to pay tax under an "alternative" tax with a broader base and lower tax rates, if that results in higher tax liability than the regular tax.

The first version of the federal tax was enacted in 1969 in response to the revelation that a number of "millionaires" were paying no federal income tax. Minnesota first enacted an AMT in 1977. For some time during the 1970s and 1980s, both the federal and state taxes were levied as "add-on minimum" taxes, rather than alternative minimum taxes. The current structure of the two taxes (as alternative, rather than add-on, taxes) has been in place since the 1986 federal reform and 1987 state reform.

Structure of Minnesota's State Alternative Minimum Tax

Minnesota's AMT roughly follows the federal AMT. Both require taxpayers to compute a tentative liability under a second tax structure. This second tax structure, the AMT, has a broader tax base (due to fewer deductions, exemptions, and credits) and lower rates than the regular tax. If the tentative tax is higher than the taxpayer's regular tax liability, the taxpayer pays the difference. In effect, the AMT takes away part of the benefit of tax preferences that lowered the regular tax.

Amount of Revenue Raised

House Research modeling[1] implies that about 4,400 tax returns owed about $15.4 million in AMT in tax year 2023. Modeling of tax returns implies that taxpayers often underreport the amount of AMT they owe—the Department of Revenue's processing report for tax year 2023 showed about $14.5 million in reported AMT among all returns filed and taxes actually collected.

Taxpayers Likely to Be Subject to the AMT

Taxpayers who pay the AMT generally fall into two main groups:

- Those who have large amounts of deductions that are allowed under the regular tax but not under the AMT
- Taxpayers with income above the level at which the AMT exemption is fully phased out

[1] Tax year 2023 modeling using the House Income Tax Simulation (HITS) model, version 7.6.

By **Sean Williams**, sean.williams@house.mn.gov

Comparing Minnesota's AMT with the Regular Income Tax

The Minnesota AMT uses a broader tax base than the regular tax does and applies a single 6.75 percent rate against that base. The table below compares the regular and alternative minimum tax.

Comparison of Regular Income Tax vs. Individual Alternative Minimum Tax
Tax Year 2026

	Regular Income Tax	Alternative Minimum Tax (AMT)
Starting point for calculation	Federal Adjusted Gross Income (AGI)	Federal Adjusted Gross Income (AGI)
Federal AMT rules that apply to state AMT		- Less generous depreciation rules - Incentive stock options - Depletion - Intangible drilling costs - Tax-exempt interest from private activity bonds
Standard Deduction	Married Joint: $30,600 Single, Married Separate: $15,300 Head of Household: $23,000	Married Joint: $97,470 Single, Head of Household: $73,100 Married Separate: $48,740
Itemized Deductions	Property and Other Taxes Paid Charitable Contributions Mortgage Interest Medical Expenses Unreimbursed Employee Expenses Casualty and Theft Losses Miscellaneous Itemized Deductions	Property and Other Taxes: **Not allowed** Charitable Contributions: **Allowed** Mortgage Interest: **Not allowed** Medical Expenses: **Allowed** Unreimbursed Employee Expenses: **Not allowed** Casualty and Theft Losses: **Allowed** Miscellaneous Itemized Deductions: **Not allowed, except the impairment-related work expenses of a person w/disability**
State subtractions	All state subtractions allowed under section 290.0132	Limited number of subtractions allowed for the charitable contributions of nonitemizers, delayed depreciation, certain military pay and retirement income, student loan discharges, Social Security benefits, public pension income, sexual harassment damages, discharges of coerced debt, consumer enforcement compensation, certain educational assistance payments, foreign service pension income, and certain nonconformity deductions for businesses.
Tax Rates	5.35%; 6.80%; 7.85%; 9.85%	6.75%