succeeding years, or taken into account upon the sale or other disposition of the associated property.

THE TAX REFORM ACT OF 1976

The minimum tax was not believed to have accomplished its goal of increasing the effective tax rate on high-income individuals and corporations, who were seen as not paying their fair share of taxes. In the 1976 act, therefore, the rate was increased to 15 percent and the exemption was reduced to the greater of either $10,000 or the regular tax deduction (which was defined as the full regular tax for corporations, but one-half of the regular tax for others). The list of preferences subject to the individual minimum tax was expanded to include excess itemized deductions, intangible drilling costs, and a larger portion of accelerated depreciation on leased personal property. The deferral of the minimum tax on preferences that result in a NOL carryover was retained, but the carryover of regular taxes as a deduction from the minimum tax base was repealed.

The Minimum Tax on Corporations. The minimum tax base for corporations was the sum (reduced by the greater of $10,000 or the full regular tax liability after credits) of the following tax preferences:

- Accelerated depreciation on real property in excess of straight-line over the same life;
- Amortization of certified pollution control facilities, railroad rolling stock, on-the-job training facilities, and child care facilities in excess of otherwise allowable depreciation;
- Bad-debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience;
- Percentage depletion in excess of the adjusted basis of the property; and
- The proportion of net long-term capital gains determined by the formula: (statutory tax rate - alternative tax rate on capital gains)/statutory tax rate.

The full regular tax deduction was retained for corporations because corporate income is also subject to the individual income tax when distributed as dividends or realized as capital gains. The following special rules applied to the timber income of corporations, and had the effect of exempting timber income from the increase in the minimum tax:

- The definition of the minimum tax preference for timber capital gains (and the deduction for regular taxes) was scaled down to produce the same result as keeping the minimum tax rate at 10 percent; and

- o The deduction from the minimum tax base of unused previous years' regular taxes, which was generally repealed, was maintained for taxes attributable to timber income (with the deduction limited to timber tax preferences).

The Minimum Tax on Individuals. The minimum tax base for individuals was the sum (reduced by the greater of $10,000 or one-half the regular tax liability after credits) of the following preferences:

- o Accelerated depreciation on real property in excess of straight-line over the same life;
- o Amortization of certified pollution control facilities, railroad rolling stock, on-the-job training facilities, and child care facilities in excess of otherwise allowable depreciation;
- o The excess of the fair market value of stock options at the time of exercise over the option price;
- o Bad-debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience;
- o Percentage depletion in excess of the adjusted basis of the property;
- o The portion of net long-term capital gains excluded from AGI;
- o The excess of itemized deductions other than medical and casualty over 60 percent, but not over 100 percent, of AGI;
- o Intangible drilling costs deductions in excess of either straight-line amortization over ten years or cost depletion (applied only to productive wells); and
- o The excess of accelerated depreciation on personal property subject to a lease (this preference was expanded from net leases to all leases, and from the excess over straight-line on the same life to the excess over straight-line on the guideline life).

THE TAX REDUCTION AND SIMPLIFICATION ACT OF 1977

The intangible drilling costs preference subject to the add-on minimum tax on individuals was changed to include only the excess over oil and gas production income. This change was intended to limit tax shelters without discouraging increased exploration. (The change was to last for one year only unless there was further Congressional action.)

THE REVENUE ACT OF 1978

The Revenue Act of 1978 created a new alternative minimum tax on individuals that applied only to capital gains and excess itemized deductions. The add-on minimum tax on individuals was retained for all other preferences. The reason for the change was the belief that the add-on minimum tax might have discouraged capital formation. The dual goals of equity and capital formation were considered to be more attainable if individuals with substantial capital gains income were subject to a minimum tax only if their regular tax liability (including the revised add-on minimum tax) was very low.

The Alternative Minimum Tax on Individuals. The alternative minimum taxable income base was gross income reduced by allowable deductions, increased by "excess itemized deductions," and including all capital gains other than gains from the sale of the taxpayer's principal residence. Excess itemized deductions were itemized deductions other than medical, casualty, and state and local taxes, and deductible estate taxes attributable to income of a decedent, in excess of 60 percent of AGI minus those deductions.

The alternative minimum income tax rate schedule was as follows:

Alternative Minimum Taxable Income	Percent
$0 to $20,000	0
$20,000 to $60,000	10
$60,000 to $100,000	20
Over $100,000	25

If the resulting amount was larger than the regular tax (including the revised add-on minimum tax) would be, the alternative tax amount would be paid. Only the foreign tax credit and refundable credits were allowed against the alternative minimum tax, and foreign tax credits were only allowed to reduce the alternative tax attributable to foreign-source income. If investment credits, jobs credits, or WIN credits provided no tax benefit in a particular year because of the alternative minimum tax, they could be carried back or forward under the usual carryover provisions.

Changes in the Additional Minimum Tax on Individuals. The capital gains preference and excess itemized deductions, the two preferences subject to the new alternative minimum tax on individuals, were removed from the list of preferences subject to the add-on minimum tax.

The 1977 change in the intangible drilling costs preference was made permanent.

Changes in the Additional Minimum Tax on Corporations. The definition of the foreign-source capital gain preference subject to the minimum tax was changed to avoid the double taxation that would occur if the minimum tax was applied in the case of reorganizations involving corporate stock in countries that do not normally give preferential treatment to capital

gains, but which give nonrecognition treatment for reorganizations requiring recognition for U.S. tax purposes.

THE ECONOMIC RECOVERY ACT OF 1981 (ERTA)

While minimum taxes were not of direct concern in ERTA, some of the major changes in regular tax structure required corresponding changes in minimum taxes.

Change in the Alternative Minimum Tax on Individuals. ERTA reduced the maximum tax rate on capital gains under the regular individual income tax from 28 percent to 20 percent. In order to conform to this change, the top rate for the individual alternative minimum tax was reduced from 25 percent to 20 percent, leaving the top bracket of alternative minimum taxable income at $60,000 and above.

Changes in the Additional Minimum Tax on Individuals. Under the Accelerated Cost Recovery System (ACRS) enacted in ERTA, most personal property could be depreciated for tax purposes significantly faster than under prior law. The resulting increase in the tax benefits available for leased personal property was recognized by a change in the tax preference for leased personal property. This preference was changed from the difference between accelerated depreciation and straight-line over the same life to the difference between accelerated depreciation and straight-line over an extended recovery period (with the half-year convention and no salvage value).

Under ACRS the tax life for real property was reduced from its useful life (generally 35 years or more) to 15 years. (The resulting tax benefits were not as great as this reduction implies, because ACRS also ended the practice of component depreciation, under which major portions of a building were frequently depreciated over much shorter lives.) The tax benefits from this change were increased by the definition of the tax preference for accelerated depreciation on real property. For real property depreciated under ACRS, this preference was defined as the difference between the accelerated depreciation allowed by ACRS and straight-line over 15 years.

Change in the Additional Minimum Tax on Corporations. The definition of the tax preference for accelerated depreciation on real property described under changes in the additional minimum tax on individuals also applied to the additional minimum tax on corporations.

THE CORPORATE MINIMUM TAX PROPOSED IN THE ADMINISTRATION'S BUDGET FOR 1983

As part of a standby revenue proposal to be implemented only if outlay reductions and economic growth did not produce a sufficiently lower budget deficit, the Administration's 1983 budget proposed replacing the add-on corporate minimum tax with an alternative corporate minimum tax of 15 percent on broadly measured corporate profits in excess of $50,000, to

be paid if it exceeded the regular tax. The Treasury Department's explanation of the budget's revenue proposals stated that while the present corporate minimum tax applied to corporations that had reduced their regular tax liability through the use of designated tax preferences, many corporations still paid little or no federal corporate tax while reporting large profits to shareholders. The proposed minimum tax was intended to apply only to profitable corporations with low regular tax liability.

The base proposed for the alternative minimum tax was regular taxable income (excluding NOL carryovers or carrybacks) plus the following special deductions:

<u>Items already subject to the existing additional minimum tax</u>

- o Accelerated depreciation on real property in excess of straight-line over the same life
- o Amortization of certified pollution control facilities or child care facilities in excess of otherwise allowable depreciation;
- o Bad debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience; and
- o The excess of depletion over the adjusted basis of the property.

<u>New tax preferences included in the alternative minimum tax on corporations</u>

- o Intangible drilling and development cost deductions (other than for dry holes) in excess of straight line amortization over 10 years;
- o Deductions for mining exploration and development costs in excess of straight-line amortization over 10 years;
- o Lessors' benefits from safe harbor leasing (depreciation plus interest less rent on the leased property in excess of the cash paid by the lessor to the lessee amortized over the lease term);
- o Interest deductions for debt used to buy or carry tax-exempt securities;
- o DISC income not taxed currently; and
- o Shipping income not taxed currently because it is deposited in construction reserve funds or capital construction funds under the Merchant Marine Act;
- o Amortization of motor carrier operating rights (under an ERTA provision designed to compensate owners of motor carrier operating rights reduced by deregulation);

- Excess interest on original-issue discount bonds; and
- Deductions for certain costs associated with long-term contracts that would not have been allowed if the contracts had been entered into after enactment of proposed changes in the method of accounting for long-term contracts.

NOLs, and credits other than the foreign tax credit, would not have been allowed against the minimum tax, and any NOLs or credits allowable in computing the regular tax would have been treated as used, even in years when the corporation paid the alternative tax. The foreign tax credit would have been allowed against any alternative minimum tax attributable to foreign-source income, but there would have been no carryover of excess foreign tax credits. To prevent the complete loss of benefits from NOLs, credits, and preferences which result in tax deferrals, in a year in which the alternative minimum tax was paid, the difference between it and the regular tax would have been carried over for up to 15 years as a credit against the regular tax.

Vehement protests against the proposal were based on the arguments that it would significantly reduce the ability of corporations to use their accumulated investment tax credits, that it would increase the taxes paid by banks by more than 50 percent, and that it would apply to corporations, such as Chrysler that had experienced extended unprofitable periods, as soon as they became profitable.

THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 (TEFRA)

The add-on minimum tax on individuals was repealed by TEFRA, and the base of the alternative minimum tax on individuals was expanded. The reason given was that the add-on tax had applied to some middle-income taxpayers who had substantial preference income but also paid substantial regular taxes, while the primary intent of the minimum tax had been to ensure that high-income individuals would pay some tax. The change was intended to increase tax liability only for taxpayers in income classes above $50,000. Some preferences subject to the corporate minimum tax were scaled back, and the portion of those preferences included in the minimum tax base was reduced. Other preferences were removed from the corporate minimum tax base.

Changes in the Alternative Minimum Tax on Individuals. The alternative minimum tax on individuals was changed to a flat rate of 20 percent on alternative minimum taxable income above $30,000 ($40,000 for joint returns). The adjusted itemized deductions preference was removed from the base, and several new preferences, including all preferences previously included in the base of the add-on minimum tax except the amortization of child care facilities (which had expired) and amortization of railroad rolling stock, were added to the alternative minimum tax base. In addition, several new deductions from the minimum tax base were allowed. As a result, the base for the alternative tax on individuals is now adjusted gross income (without NOL deductions, but negative if other above-

the-line deductions exceed gross income) reduced by a minimum tax net of operating loss deduction, the amount of the alcohol fuel credit, and the following itemized deductions:

- o Charitable contributions;
- o Medical expenses in excess of 10 percent of AGI;
- o Casualty losses;
- o Wagering losses;
- o Estate tax deduction for income in respect of a decedent;
- o Qualified housing interest (generally interest on a residence used by the taxpayer or family, with restrictions to prevent abuse);
- o Other interest to the extent of qualified net investment; and
- o Income included in the minimum tax base.

and increased by the following tax preferences:

<u>Preference previously subject to the alternative minimum tax on individuals:</u>

- o The portion of net long-term capital gains excluded from AGI (excluding gains on the taxpayer's principal residence);

<u>Preferences previously subject to the additional minimum tax on individuals:</u>

- o Accelerated depreciation on real property in excess of straight-line depreciation over the otherwise allowable life;
- o Accelerated depreciation on leased personal property in excess of straight-line depreciation over an extended recovery period;
- o Amortization of certified pollution control facilities in excess of otherwise allowable depreciation;
- o Percentage depletion in excess of the adjusted basis of the property;
- o Intangible drilling expenses in excess of straight-line amortization and in excess of net income from oil and gas production;

- o The excess of the fair market value of an incentive stock option at the time of exercise over the option price (previously applied to qualified or restricted stock options);

<u>New tax preferences for the alternative minimum tax on individuals:</u>

- o Mining exploration and development cost deductions in excess of straight-line amortization over 10 years;
- o Research and experimental expenditure deductions in excess of straight-line amortization over 10 years;
- o Magazine circulation expenditure deductions in excess of straight-line amortization over 10 years;
- o Interest excluded under the all-savers and net interest exclusions; and
- o Dividends excluded under the dividend exclusion.

As under prior law, the foreign tax credit is allowed only against the portion of the minimum tax attributable to foreign-source income. No other credits (except refundable credits) are allowed against the minimum tax, but carrybacks and carryovers are allowed under normal rules for credits which provide no tax benefit because of the minimum tax.

When the minimum tax applies, special minimum tax net operating loss calculations account for differences between the regular tax base and the minimum tax base.

Changes in the Additional Minimum Tax on Corporations. Under TEFRA certain corporate tax preferences were cut back by 15 percent, so that only 85 percent of each of those preferences could be used to reduce regular taxable income. The add-on minimum tax for corporations was modified in conjunction with the scale-back to avoid reducing the benefits from those preferences by more than 15 percent. This was accomplished by including only 71.6 percent[15] of the value of the scaled-back preferences in the minimum tax base. The following corporate tax preferences which are subject to the corporate minimum tax were reduced by 15 percent:

- The excess of depletion on iron ore and coal over the adjusted basis of the property;
- Bad debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience;
- Capital gain on real estate sold by a corporation (the amount treated as ordinary income is increased by 15 percent of the additional amount that would be treated as ordinary income if the property were subject to full recapture); and
- Amortization of certified pollution control facilities in excess of otherwise allowable depreciation.

The preferences for amortization of child care facilities (which expired at the end of 1981) and for amortization of railroad rolling stock were removed from the corporate minimum tax base.

THE DEFICIT REDUCTION ACT OF 1984 (DEFRA)

Under DEFRA, the 15 percent cutback in specified corporate tax preferences enacted in TEFRA was expanded to 20 percent for all preferences

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15/ This was the percent required to prevent the combination of the scale-back and the additional minimum tax on corporate tax preferences from reducing the marginal benefit of the preference by more than the additional tax alone would have reduced it for a taxpayer at the 46 percent statutory tax rate, with more than $10,000 of regular tax liability, and with more tax preferences than tax liability.

except depletion on iron ore and coal. In conjunction with this cutback, the share of the specified preferences (again excluding depletion on iron ore and coal) included in the minimum tax base was reduced from 71.6 percent to 59 and 5/6 percent.

The recovery period for domestic real property under ACRS was lengthened from 15 years to 18 years for property placed in service after March 15, 1984. This change affected the tax preferences for accelerated depreciation subject to the additional minimum tax on corporations and the alternative minimum tax on individuals.

As a result of the changes made in TEFRA and DEFRA, the base for the corporate minimum tax now includes the following preferences:

- Accelerated depreciation on real property in excess of straight-line over the same life (15 years for low income property or 15 year ACRS recovery property placed in service before DEFRA, 18 years for 18 year ACRS recovery property);
- Percentage depletion in excess of the adjusted basis of the property (71.6 percent of the excess for depletion on iron ore or coal);
- 59 and 5/6 percent of the amortization of certified pollution control facilities in excess of the otherwise allowed depreciation;
- 18/46ths of net capital gains reported by corporations, plus approximately 23 percent of the additional capital gains that would have been reported on the sale of real property if it had been subject to full recapture; and
- 59 and 5/6 percent of bad-debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience.

Special provisions continue to limit the minimum tax rate on timber preferences to 10 percent.

As with prior law, for a year in which a corporation has a net operating loss that can be carried over to a later year, the lesser of either the minimum tax for that year or a portion of the minimum tax equal to 15 percent of the NOL carryover is deferred until the NOL is used.

APPENDIX

REVENUE RAISED BY ACTUAL MINIMUM TAXES [16]

Additional Minimum Tax on Corporate Tax Preferences

Revenue Raised in Millions of Dollars

Year	Total	From Corporations with $250 Million Plus Assets ($)	(%)
1969	3.1	0.4	13.5
1970	265.2	220.8	83.2
1971	279.1	231.2	82.9
1972	315.9	260.7	82.5
1973	335.1	275.3	82.1
1974	346.8	290.5	83.8
1975	156.7	103.5	66.0
1976	192.9	130.0	67.4
1977	227.5	167.5	73.6
1978	340.5	212.6	62.4
1979	432.6	294.2	68.0
1980	438.8	306.5	69.9
1981	524.9	390.1	74.3
1982	477.7[p]	na	na

Source: Internal Revenue Service, Statistics of Income: Corporate Income Tax Returns.

16/ Statistics of Income tabulations of the revenue raised by a minimum tax are not comparable to estimates of the revenue effects of those taxes. In the SOI, the impacts of a minimum tax on the revenue loss from credits or on the volume of deductions taken would show up as lower levels of credits and deductions claimed, and higher regular tax liabilities. SOI data on alternative minimum taxes show the total amount collected under the minimum tax, not the net revenue after subtraction of regular taxes that would have been collected in the absense of the minimum tax.

Individual Minimum Taxes

Revenue Raised in Millions of Dollars

Year	total	From Individuals with $1 Million plus AGI ($)	(%)
Individual Minimum Tax on Individual Tax Preferences			
1970	112.5	23.7	21.0
1971	111.8	17.6	15.7
1972	216.3	51.9	24.0
1973	182.3	31.1	17.1
1974	142.6	24.0	16.8
1975	144.1	30.5	21.2
1976	1000.3	108.5	10.8
1977	1322.9	142.2	10.8
1978	1514.5	124.8	8.2
1979	309.2	19.6	6.3
1980	412.6	28.2	6.8
1981	565.6	46.1	8.2
1982	450.7[r]	58.0	12.9
1983	8.1[p]	na	na
Alternative Minimum Tax on Individuals			
1979	865.9	82.9	9.6
1980	850.3	80.5	9.5
1981	1261.3	162.7	12.9
1982	1069.2[r]	195.7	18.3
1983	1930.9[p]	na	na

Source: Internal Revenue Service, Statistics of Income: Individual Income Tax Returns.

REVENUE ESTIMATES FOR EXAMPLES OF MINIMUM TAX PROPOSALS

The following revenue estimates were provided to CBO by the Congressional Joint Committee on Taxation (JCT), early in 1985. The JCT's revenue estimating methodology is currently being revised, and the estimates for these minimum tax examples can be expected to change once the revisions are completed. These examples are intended to illustrate the size and pattern of static revenue effects that might be associated with broad-based minimum taxes of the three types discussed in Section one.

The static assumptions under which the following revenue estimates were made include the assumption that the level and timing of the preferences targeted by the minimum tax would not change. This assumption implies, in turn, the assumption that the economic activities the preferences were originally intended to promote would not be changed by the imposition of the minimum tax. Static assumptions are the customary basis for revenue estimates, both because there is no general agreement about the magnitude of first order behavioral responses to tax incentives, and because the ultimate revenue effect of any tax change depends upon interaction of the first order behavioral response with the entire economy, including any response of monetary policy, about which there would be even less general agreement.

Possible Impacts of Behavioral Assumptions on Revenue Estimates. If tax incentives are assumed to increase the total level of the activities they promote, it would be reasonable to expect a minimum tax targeted on particular incentives to have some impact on the level of the activities promoted by those incentives. The effect of that impact on the minimum tax revenue estimate would depend on both the size of the impact on the targeted activities, and the revenue-raising efficiency of the promoted activities in the context of the entire economy. For instance, if investment incentives are assumed to increase the aggregate level of investment, a minimum tax targeted on investment incentives would be expected to reduce investment. This reduction would tend to decrease accelerated depreciation deductions, thus increasing the short-run revenue gain from the minimum tax. If additional tax-motivated investments are assumed to increase the total level of economic (and tax-paying) activity, the investment reduction would eventually reduce total revenues, so the revenue effect of the minimum tax might eventually be smaller than the static estimates. On the other hand, if investment incentives were assumed to change only the mix of investment, and if tax-motivated investments were assumed to be less efficient than market-determined investments, then anything, including a minimum tax, that reduced the tax motivated distortions might be expected to raise revenues by more than static estimates would show. This result would be especially likely if revenues from the minimum tax provided enough fiscal restraint to prompt an easing of monetary policy.

An alternative minimum tax would be very likely to cause an increase in tax-motivated mergers and acquisitions. Such a behavioral response would directly reduce minimum tax revenues, probably by increasing amounts as the minimum tax rate increased.

Additional Minimum Tax on After-Tax Economic Income

Addition to CBO Baseline	Annual Added Revenues in Billions of Dollars					Cumulative Five-year Addition
	1986	1987	1988	1989	1990	
5 % rate	8.5	13.1	15.0	17.0	19.3	72.9
2.5 %rate	4.3	6.2	7.2	8.2	9.3	35.2

Base equals broadly defined "economic income" reduced by both the regular corporate tax liability and an exclusion of $100,000. Economic income is defined as business receipts minus allowable business expenses such as wages and salaries, cost of materials, payments to qualified pension plans, and straight line depreciation of business assets over useful lives (approximated by ADR midpoint lives for equipment and 40 years for structures.) As a result, the base would include income already taxed under the regular corporate income tax, and most items currently defined as tax expenditures.

With the exception of the foreign tax credit, credits and NOLs are not allowed to reduce minimum tax liability.

The present additional tax on specified corporate tax preferences is assumed to be repealed.

The effective date is assumed to be January 1, 1986.

Expand The Existing Corporate Minimum Tax to Include
Most Items Currently Defined as Tax Expenditures

Addition to CBO Baseline	Annual Added Revenues in Billions of dollars 1986	1987	1988	1989	1990	Cumulative Five-Year Addition
15 % rate	2.2	4.3	5.7	7.6	11.5	31.3

Base includes the following corporate tax preferences:

- o Accelerated depreciation in excess of straight line over ADR midpoint lives for equipment, and 40 years for structures;[1]
- o Percentage depletion in excess of the adjusted basis of the property;[2] [3]
- o Amortization of certified pollution control facilities in excess of otherwise allowable depreciation;[2] [3]
- o 18/46ths of net capital gains reported by corporations;[2] [4]
- o Bad debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience;[2] [3]
- o Excludable foreign sales corporation (FSC) income;
- o Intangible drilling expenses in excess of cost depletion;
- o Interest deductions for debt used by financial institutions to buy or carry tax-exempt securities; and
- o Contributions to capital construction funds allowed under the Merchant Marine Act.

The effective data is assumed to be January 1, 1986.

(for preferences not currently subject to the minimum tax, only preference income associated with activities initiated after 1/1/86 would be included in the minimum tax base)

1/ Under present law a small portion of this; the accelerated depreciation on real property in excess of straight line over the allowable tax life, is included in the additional tax on tax preferences.

2/ Subject to the present additional minimum tax on corporate tax preferences.

3/ Includes only the portion still usable after the scale-back of corporate tax preferences provided by TEFRA and DEFRA.

4/ For capital gains reported on the sale or disposition of real property the minimum tax applies only to the portion of the preference still usable after the scale-back of corporate preferences provided by TEFRA and DEFRA.

Alternative Minimum Tax on Broad-Based Corporate Income

Addition to CBO baseline	Annual Added Revenues in Billions of Dollars 1986	1987	1988	1989	1990	Cumulative Five-Year Addition
15 % rate	3.3	5.5	6.1	6.6	9.7	31.2

Base includes current taxable income minus a $50,000 exemption and plus the following corporate tax preferences:

- Accelerated depreciation in excess of straight-line over ADR midpoint lives for equipment, and 40 years for structures;[1]
- Percentage depletion in excess of the adjusted basis of the property;[2 3]
- Amortization of certified pollution control facilities in excess of otherwise allowable depreciation;[2 3]
- 18/46ths of net capital gains reported by corporations;[2 4]
- Bad debt deductions of financial institutions in excess of what would have been allowed on the basis of actual experience;[2 3]
- Excludable foreign sales corporation (FSC) income;
- Intangible drilling expenses in excess of cost depletion;
- Interest deductions for debt used by financial institutions to buy or carry tax exempt securities; and
- Contributions to capital construction funds allowed under the Merchant Marine Act.

The current additional minimum tax on corporate tax preferences is assumed to be repealed.

No credits other than the foreign tax credit and the U.S. possessions tax credit are allowed.

No NOL deductions are allowed.

The difference between the alternative tax and the regular tax would be carried over up to 15 years as a credit against the regular tax.

The effective date is assumed to be January 1, 1986.

1/ Under present law a small portion of this,- the accelerated depreciation on real property in excess of straight line over the allowable tax life, is included in the additional tax on tax preferences.

2/ Subject to the present additional minimum tax on corporate tax preferences.

3/ Includes only the portion still usable after the scale-back of corporate tax preferences provided by TEFRA and DEFRA.

4/ For capital gains reported on the sale or disposition of real property the minimum tax applies only to the portion of the preference still usable after the scale-back of corporate preferences provided by TEFRA and DEFRA.

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