Using the Alternative Minimum Tax to Estimate the Elasticity of Taxable Income for Higher-Income Taxpayers

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Abstract

This paper exploits large kinks generated by the intersection of the regular income tax and the alternative minimum tax (AMT) schedules to provide fresh estimates of the elasticity of taxable income with respect to the net-of-tax rate. Such cross-schedule interactions can confound the location of analyzable kinks if either of the two schedules are considered independently of each other. Further, the magnitude of the kink resulting from this interaction is greater than for kinks found separately on the two tax schedules, potentially generating more substantial behavioral responses. I use publicly available Statistics of Income (SOI) individual tax return data from 1993-2011 to exploit bunching around the "intersection kink" point and generate estimates of the elasticity of reported income for higher-income individuals in the United States. Estimated elasticity of taxable income around the intersection kink is 0.08, an order of magnitude higher than earlier estimates using only the regular tax schedule, and eight times as high as in other countries such as Denmark. Preferred estimates are higher at 0.15.