TaxJourney
United States

March 04, 2025

Corporate Alternative Minimum Tax (CAMT): Impact on Private Equity

The Alternative Minimum Tax (AMT) was introduced in the United States in 1969 to ensure that high-income taxpayers contributed a minimum amount of tax, thereby precluding them from significantly reducing or eliminating their tax liability through the regular tax system. Similarly, the Corporate Alternative Minimum Tax (CAMT) was first instituted under the Tax Reform Act of 1986 to achieve a parallel objective for corporations.

In 2022, CAMT was reintroduced under the Inflation Reduction Act. This updated version encompasses more detailed and intricate provisions, reflecting a modernized approach to maintaining tax compliance among corporations.

Introduction of the New CAMT and Its Impact

The revised Corporate Alternative Minimum Tax (CAMT) enforces a 15% minimum tax on the Adjusted Financial Statement Income (AFSI) of large corporations with a three-year average annual AFSI exceeding $1 billion. This tax is applicable for tax years commencing after December 31, 2022.

This change marks a significant departure from the previous CAMT, as it is now based on AFSI rather than taxable income. The updated CAMT considers income that meets the threshold over a three-year period. Financial statement income is typically higher than taxable income due to the limited inclusion of tax deductions and credits.

CAMT Impact on Private Equity

The proposed regulations facilitate the aggregation of entities not traditionally consolidated in financial statements, such as portfolio companies controlled by private equity funds engaged in a trade or business, under the Corporate Alternative Minimum Tax. Subsidiaries of private equity funds not engaged in a trade or

business are not explicitly included, and commenters suggest they should not be aggregated without further guidance, which is anticipated upon finalization of the regulations. This single entity rule could result in more blockers or public companies utilizing Up-C structures being classified as "applicable corporations" if their group meets the $1 billion threshold for Adjusted Financial Statement Income.

The regulations apply the constructive ownership rules under IRC Section 1563(d)(1)(B) to attribute control through partnerships. Consequently, private equity funds' indirect ownership of portfolio companies could count towards the CAMT threshold, increasing the likelihood of exceeding the $1 billion threshold. For instance, a private equity fund with a foreign partnership owning both foreign and domestic blocker corporations, each owning a domestic portfolio company, would see these portfolio companies included in the Foreign Parented Multinational Group (FPMG) since they are part of the same single employer group as the blockers. This broader group could potentially meet the threshold for applicable corporation status.

The Corporate Alternative Minimum Tax (CAMT) introduces considerable complexity for private equity funds by necessitating the calculation and reporting of Adjusted Financial Statement Income (AFSI) for their entire group, encompassing both foreign and domestic entities. Private equity funds may be required to consolidate financial data from a diverse array of investments, even those not traditionally consolidated for financial reporting purposes. This comprehensive approach has the potential to impact the overall tax liability of the fund.

Furthermore, the Treasury's proposed bottom-up approach is anticipated to significantly increase the workload for partnerships and corporations holding partnership interests. Partnerships will need to calculate their AFSI and ensure precise reporting to their CAMT entity partners upon request. Such requests must be addressed within 30 days of the end of the partnership's tax year, particularly if the CAMT entity partner cannot ascertain its distributive share of the partnership's AFSI without this information.

When requested by a CAMT entity partner, a partnership is obligated to furnish it to the CAMT entity partner. Once a request is made, the partnership must continue to supply the information for each subsequent taxable year unless otherwise notified. An upper-tier partnership must request the relevant information from a lower-tier partnership, which must file the information with the IRS and provide it to the upper-tier partnership.

This intricate process could significantly increase the compliance burden, prompting investment funds to carefully consider accepting subscriptions from entities potentially subject to CAMT. Consequently, partnerships may need to maintain four distinct sets of records:

a. financial accounting;

b. tax basis;

c. IRC Section 704(b) economic capital accounts; and

d. CAMT

Tax professionals and stakeholders have recommended that the Treasury implement safe harbors or simplified methods to alleviate the reporting burden, particularly for companies holding minority stakes in partnerships. Without such simplifications, many entities could experience a substantial increase in their compliance workload.

Adapting to CAMT

Corporate tax departments must have a comprehensive understanding of the new Corporate Alternative Minimum Tax (CAMT) rules and their implications under the Inflation Reduction Act. In 2023, the IRS provided consistent guidance to clarify various aspects of CAMT. The September guidance offered detailed instructions on determining a company's financial statement income and Adjusted Financial Statement Income (AFSI), and outlined the circumstances under which corporations are subject to CAMT. This includes CAMT foreign tax credits, tax consolidated groups, foreign corporations, depreciable property, wireless spectrum, duplications and omissions of certain items, and financial statement net operating losses.

CAMT's Impact on Corporate Tax Liabilities

For businesses meeting the $1 billion threshold, it is imperative to review tax liabilities comprehensively. Corporate tax leaders must analyze both regular taxable income and financial statements. CAMT liability is determined by applying a flat tax rate to adjusted income, which includes adding back certain tax preference items and making necessary adjustments. If the CAMT liability exceeds the regular tax liability, the company must pay the CAMT amount. This can limit the benefits of deductions and credits, potentially resulting in a higher tax bill. The impact will vary based on the company's financial situation, use of deductions and credits, and any changes in tax legislation.

The CAMT imposes limitations on the utilization of tax credits and net operating losses (NOLs), impacting deferred tax assets (DTAs) and liabilities reported on financial statements. This can diminish the availability of future tax benefits and affect cash flow projections, necessitating adjustments to long-term tax planning strategies. Ensuring compliance with SEC and IRS regulations is vital to maintaining accurate financial reporting, avoiding legal penalties, and upholding investor trust. Non-compliance can result in audits, fines, and reputational damage, ultimately affecting stock value and stakeholder confidence.

Follow Us On LinkedIn

This document on its own represents an incomplete record of SWBA's views and deliberations on the subject. This document is proprietary to SWBA and its use outside of SWBA is strictly prohibited without prior consent or appropriate authorization. This document contains general information only and is based on the experiences and research of SWBA practitioners. SWBA is not, by means of this publication, rendering accounting, business, financial, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking and action that may affect your business, you should consult a qualified professional advisor. SWBA, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this document.

© Small World Business Advisors LLC and affiliated entities.