So what is the Alternative Minimum Tax (AMT)?

Regular tax laws give preferential treatment to certain kinds of income and allow special deductions and credits for certain kinds of expenses. The alternative minimum tax (AMT) attempts to ensure that anyone who benefits from these tax advantages pays at least a minimum amount of tax. The AMT is a separately figured tax that eliminates many deductions and credits, thus increasing tax liability for an individual who would otherwise pay less tax. The tentative minimum tax rates on ordinary income are percentages set by law. For capital gains and certain dividends, the rates in effect for the regular tax are used. (IRS.gov, Topic 556)

Individuals must figure their federal income tax under two methods: regular income tax rules and AMT rules. Your tax liability is the higher of the two amounts.

To determine your AMT, specific adjustments and exclusions are made to your regular taxable income. Standard items that affect most taxpayers include:

- Standard deduction
- Personal exemptions
- Itemized deductions including
  - State and local taxes including sales tax and property taxes
  - Miscellaneous deductions including un-reimbursed employee expenses
  - Home equity mortgage interest
  - Investment interest expense
  - Medical and dental expenses must exceed 10% versus 7.5% of AGI
- Depreciation deductions
- Long-term capital gains
- Exercise of incentive stock options
- Tax exempt income from private activity bonds
- Passive activities
- Depreciation deductions

This is not a complete list, just some of the more common adjustments. Thankfully, most tax preparation software is programmed to run through both sets of calculations and determine if you need to pay AMT. The key to determining the correct calculations is to ensure you know where you have exposure.

Bauer, Willis & Associates, Inc.
11703 Huebner Road, Suite 112
San Antonio, TX 78230

Phone: (210) 354-1040
Fax: (210) 408-8256
bwa@neighborhoodcpa.com