

# Alternative Minimum Tax

---

## No Longer a Tax for the Wealthy

Presented by Kathleen Kaminski, CPA  
November 19, 2008

Green & Seifter CPAs  
110 West Fayette Street  
One Lincoln Center, Suite 900  
Syracuse, NY 13202  
315.701.6350  
[www.greenseiftercpas.com](http://www.greenseiftercpas.com)

# Alternative Minimum Tax

No longer a tax for the wealthy

---

## □ History

- Introduced by the Tax Reform Act of 1969 and became operative in 1970; intended to target 155 high-income households
- In 1970, 19,000 taxpayers owed AMT
- Targeted tax shelters used by a few wealthy households
- Tax Reform Act of 1986: AMT expanded to aim at a different set of deductions that most Americans receive

# Alternative Minimum Tax

No longer a tax for the wealthy

---



GREEN & SEIFTER  
Certified Public Accountants, PLLC

## □ Current Controversies

- Not indexed to inflation
- Bracket Creep
- Punishes taxpayers for having children or living in a high-tax state, and/or high property tax area
- In 2010, if nothing is changed,
  - 1 in 5, nearly 20%, taxpayers will become liable for AMT and nearly every married taxpayer with income between \$100,000-\$415,000
  - In 2005 roughly 3% of taxpayers were affected
- Congress has passed one-year patches
- 2007 patch was passed on 12/20/2007

# Alternative Minimum Tax

No longer a tax for the wealthy

## □ What Happened?

- Inflation- “regular” tax brackets, exemptions and standard deductions adjusted annually
  - AMT – brackets and exemptions are not; standard deduction is not allowed



# Alternative Minimum Tax

No longer a tax for the wealthy

## □ Who is vulnerable?

- Taxpayers with income > \$75,000 and some large deductions
  - Several children
  - Interest deductions from second mortgage
  - Capital gains
  - High state, local and property taxes
  - Incentive stock options (ISO)



# Alternative Minimum Tax

No longer a tax for the wealthy

---



GREEN & SEIFTER  
Certified Public Accountants, PLLC

## □ How AMT Works

- Separate tax system
- Run the numbers if:
  - Gross income is above \$75,000 and write-offs for personal exemptions, taxes, home equity loan interest
  - Exercised ISO
  - Gross income is above \$100,000
- Various tax benefits available regular tax are reduced/eliminated
- Special deduction- AMT Exemption
  - Phases out when income reaches higher levels
- Calculate tax using AMT rates
  - 26% -28% (regular tax rates 10% -35%)



# Alternative Minimum Tax

No longer a tax for the wealthy

## □ Where to start

	Regular Tax		
Income	150,000		
Adjustments to income	(10,000)		
Adjusted gross income	140,000	AMT starts here	if standard deduction
Itemized deductions or standard deduction	(20,000)		
subtotal	120,000	AMT starts here	if itemized deductions
Personal exemptions	(13,600)		
Taxable income	106,400		



# Alternative Minimum Tax

No longer a tax for the wealthy

---

- ❑ Start with regular taxable income, before personal exemptions;
- ❑ If used standard deduction, start with Adjusted Gross Income (AGI)
- ❑ Add back “tax preference items”:
  - Medical and dental
  - Taxes
  - Home mortgage interest adjustment
    - ❑ Home Mortgage interest deducted on Schedule A
    - ❑ Less: eligible mortgage interest and refinance an eligible mortgage
    - ❑ Example: home equity loan used to purchase a new car- interest not deductible for AMT
  - Miscellaneous Deductions
- ❑ Subtract: Tax refund

# Alternative Minimum Tax

No longer a tax for the wealthy

---

- ❑ Add back
  - Net operating loss deduction
  - Interest from specified private activity bonds exempt from regular tax reported on Form 1099-INT, box 9
  - Exercise of incentive stock options
    - ❑ Excess of FMV of stock acquired through exercise of the option, over amount paid for the stock, including any amount paid for the ISO used to acquire the stock
    - ❑ Example: Exercise option to buy 100 shares of stock for \$3/share
      - Stock was trading for \$33/share
      - Spread is \$30/share or \$3,000
      - Considered income for AMT
  - Disposition of property
    - ❑ Property may have different adjusted basis for AMT
  - Depreciation of assets placed in service after 1986
    - ❑ Refer to the instructions for Form 6251 for depreciation that must be refigured
- ❑ Result is Alternative minimum taxable income (AMTI)

# Alternative Minimum Tax

No longer a tax for the wealthy

## □ Exemption

	1986-1992	1993-2000	2001-2002	2003-2005	2006	2007	2008	
MFJ	40,000	45,000	49,000	58,000	62,550	66,250	<del>45,000</del>	\$69,950
Single or HOH	30,000	33,750	35,750	40,250	42,500	44,350	<del>33,750</del>	\$46,200

If AMT taxable income is not over:

Single	112,500
MFJ	150,000
HOH	75,000

} Never adjusted for inflation

For 2007, AMT exemption is not fully phased out until AMTI exceeds \$415,000 for MFJ returns.

# Alternative Minimum Tax

No longer a tax for the wealthy

---

- Tentative Minimum Tax (TMT)
  - 26% of AMTI up to \$175,000
  - 28% of AMTI \$175,000 and above
- AMT foreign tax credit – only credit allowed against AMT
- Compare to regular tax; if TMT is greater, difference between TMT and regular tax is added to the regular tax amount

# Example

Mr & Mrs Altmin Tax  
Middle Class Taxpayers  
Family of Four

2007

		Before "patch"	After "patch"
Income - wages	167,000		
Adjustments to income	-		
Adjusted gross income	167,000	167,000	167,000
Itemized deductions :			
NYS Income Tax	(9,068)		
Real Estate Taxes	(12,431)		
Mortgage Interest	(12,461)		
Charitable Contributions	(2,780)		
	<u>(36,740)</u>		
Itemized deductions after Phase-out		<u>(36,600)</u>	<u>(36,600)</u>
Subtotal		130,400	130,400
Personal Exemptions		(13,600)	(13,600)
Taxable Income		<u>116,800</u>	<u>116,800</u>
Regular Tax		22,000	22,000
AMT Tax		5,950	150
Total Tax		<u>27,950</u>	<u>22,150</u>

# Example

Mr & Mrs Regular Tax  
middle class taxpayers  
family of four

Mr & Mrs  
Altman  
Tax

	<u>2007</u>	
Income - wages	134,000	167,000
interest & dividend income	12,000	-
capital gain income	27,500	-
Pass-thru p'ship income	800	-
Adjustments to income	-	-
Adjusted gross income	<u>174,300</u>	<u>167,000</u>
Itemized deductions :		
NYS income tax	(9,900)	(9,068)
Real estate taxes	(5,300)	(12,431)
Mortgage interest	-	(12,461)
Charitable contributions	(6,500)	(2,780)
	<u>(21,700)</u>	<u>(36,740)</u>
Itemized deductions after Phase-out	<u>(21,390)</u>	<u>(36,600)</u>
subtotal	152,910	130,400
Personal exemptions	(13,600)	(13,600)
Taxable income	<u>139,310</u>	<u>116,800</u>
Regular tax	24,330	22,000
AMT tax	-	150
Total tax	<u><u>24,330</u></u>	<u><u>22,150</u></u>

# Alternative Minimum Tax

No longer a tax for the wealthy

---

- ❑ Sorry, you're not finished yet!
  - You get a tax credit for AMT paid in a prior year
  - Form 8801, Credit for Prior Year Minimum Tax Credit calculates how much of the AMT was related to deferral items
    - ❑ Exclusion items- not deductible for AMT i.e. taxes, home equity mortgage interest and misc. deductions
  - Form 6251, lines 13-26 are deferral items
    - ❑ Depreciation methods may be slower under the AMT than those used for regular tax; eventually the deduction is the same
      - This creates a timing difference

# Alternative Minimum Tax

No longer a tax for the wealthy

---

- How do I avoid AMT?
  - Have fewer AMT preferences
    - State income taxes- push last estimated tax payment to next year
    - Real estate taxes- push last payment to next year
  - Standard deduction- if AMT liability when claiming the standard deduction, recompute tax with whatever itemized deductions you have
    - AMT liability will decrease; total tax liability may increase or decrease. Elect to itemize only if it reduces total tax.
  - Stay out of \$150,000 - \$415,000 income range
    - i.e. realize large capital gain all in one year rather than dividing over two or three years

# Alternative Minimum Tax

No longer a tax for the wealthy



GREEN & SEIFTER  
Certified Public Accountants, PLLC

## Multi Year Planning

- Timing is everything
- A limit to what you can do/  
know what opportunities to  
look for



Consult your professional tax preparer- help  
balance ordinary income against deductions

- Usual tax strategy of delaying income and  
maximizing deductions may push you into AMT  
zone

# Alternative Minimum Tax

## No longer a tax for the wealthy

---

### □ Suggestions:

- 1. In a year that you have to pay AMT, don't bother prepaying your real estate or 4th quarter state estimated tax payments in December. You get no benefit.
  - Conversely, if tentative minimum tax is much lower than regular tax, prepayment of state and property taxes may help avoid AMT liability in the following year.
- 2. Real estate tax and personal property taxes are not deductible for AMT if they are part of itemized deductions. Taxes deductible on a business schedule, (Schedule C), rental schedule (Schedule E), or farm schedule (Schedule F), are allowed for AMT
  - perhaps you can qualify for home office
  - if you have a farm operation and use your car in your work, deduct a portion of the personal property tax on the car

# Alternative Minimum Tax

No longer a tax for the wealthy

---

## □ Suggestions:

- 3. Ask employer to start reimbursing for employee business expenses
- 4. If employer won't reimburse, consider negotiating: have employer pay for some of the expenses in exchange for a lower salary
  - your employer saves on payroll taxes, workman's compensation insurance
  - you reduce your taxable income and possibly avoid AMT
- 5. Invest in tax-exempt bonds that are not private activity

# Alternative Minimum Tax

No longer a tax for the wealthy

---

## □ Suggestions:

- 6. Exercise ISO to purchase 100 shares of stock at \$3/share and decide to hold the stock as a long-term investment.
  - On day of exercise, the stock is trading at \$33/share. Line 13 of Form 6251 = \$3,000
  - Your basis on the stock is \$300 for regular tax purposes, but \$3,300 for AMT purposes
  - When you later sell the stock, you will have an entry on Line 16, Disposition of Property Difference, to account for the difference in regular and AMT purposes.
  - If exercise ISO's at \$33, and stock falls below that before the end of the year, sell the stock and avoid AMT
- 7. Consider electing a slower depreciation for your business assets for regular tax purposes

# Alternative Minimum Tax

No longer a tax for the wealthy

---



GREEN & SEIFTER  
Certified Public Accountants, PLLC

- What I Need to Know:
  - AMT = A Mean Tax ?
  - If you are vulnerable to AMT:
    - Multi year tax planning
    - Timing is everything
    - Consult your professional tax preparer

*Questions or Comments?*

Thank you!