

What is AMT and why do I have to pay it?

Congress, like most of us, has a budget to work with. A large part of their budget comes from federal income taxes. The federal income tax system is meant to be fair and progressive. To make sure everyone is paying a fair amount of income tax and not reducing their tax bill too much, Congress enacted an alternate system called alternative minimum tax (AMT).

If your regular tax is higher than what is calculated under the AMT system, you do not owe AMT. However, if your regular tax is less than what is calculated under the AMT system, you'll find an additional tax calculated under the alternate system. Form 6251, *Alternative Minimum Tax—Individuals*, is used to calculate AMT.

Regular tax system rates

The regular tax system has progressive rates, meaning high-income earners will pay more. The table below shows each of the tax rates and at what level of taxable income the next rate is used. However, the more you make, the higher your tax rate. You don't lose the benefit of the lower rates. Once your income moves into the next rate, that portion of your income will be taxed based at that rate.

2017 Regular Tax Rates

| Rate | S | MFJ, QW | MFS | HH |
|-------|-----------|-----------|-----------|-----------|
| 10% | \$0 | \$0 | \$0 | \$0 |
| 15% | \$9,325 | \$18,650 | \$9,325 | \$13,350 |
| 25% | \$37,950 | \$75,900 | \$37,950 | \$50,800 |
| 28% | \$91,900 | \$153,100 | \$76,550 | \$131,200 |
| 33% | \$191,650 | \$233,350 | \$116,675 | \$212,500 |
| 35% | \$416,700 | \$416,700 | \$208,350 | \$416,700 |
| 39.6% | \$418,400 | \$470,700 | \$235,350 | \$444,550 |

2018 Regular Tax Rates

| Rate | S | MFJ, QW | MFS | HH |
|------|-----------|-----------|-----------|-----------|
| 10% | \$0 | \$0 | \$0 | \$0 |
| 12% | \$9,525 | \$19,050 | \$9,525 | \$13,600 |
| 22% | \$38,700 | \$77,400 | \$38,700 | \$51,800 |
| 24% | \$82,500 | \$165,000 | \$82,500 | \$82,500 |
| 32% | \$157,500 | \$315,000 | \$157,500 | \$157,500 |
| 35% | \$200,000 | \$400,000 | \$200,000 | \$200,000 |
| 37% | \$500,000 | \$600,000 | \$300,000 | \$500,000 |

AMT system rates

The AMT rates are 26% and 28%. To determine how much income is subject to AMT, alternative minimum taxable income is calculated by adding back certain items that are allowed to reduce taxable income under the regular tax system but are not allowed for AMT.

Once alternative minimum taxable income is determined, an exemption amount may further reduce that income subject to the 26% and 28% AMT rates. Children are also subject to the AMT.

Not all taxpayers receive a benefit for the exemption amount because the AMT exemption is reduced by 25% of the amount by which the alternative minimum taxable income exceeds the beginning phaseout amount, and is completely phased out when the taxpayer's income reaches that ending phaseout.

If your regular tax is greater than the AMT, you are not subject to AMT. However, if the AMT is higher than the regular tax, you must pay the AMT amount when filing your Form 1040.

2017 AMT Exemptions

| Rate | Exemption | AMT Phaseout |
|------------|-----------|---------------------|
| S, HH | \$54,300 | \$120,700–\$337,900 |
| MFJ, QW | \$84,500 | \$160,900–\$498,900 |
| MFS | \$42,250 | \$80,450–\$249,450 |
| Kiddie Tax | \$7,500* | \$120,700–\$337,900 |

*Child's earned income not to exceed \$54,300.

2018 AMT Exemptions

| Rate | Exemption | AMT Phaseout |
|------------|-----------|-------------------------|
| S, HH | \$70,300 | \$500,000–\$781,200 |
| MFJ, QW | \$109,400 | \$1,000,000–\$1,437,600 |
| MFS | \$54,700 | \$500,000–\$718,800 |
| Kiddie Tax | \$7,650* | \$500,000–\$781,200 |

*Child's earned income not to exceed \$55,400.

Is there any hope?

It may have come as a shock to find out you now have to pay more because of the AMT system. Does this mean that all tax planning is a lost cause now that you are subject to the AMT system? Absolutely not. These items may lower both regular and AMT taxes:

- Capital gain rates
- Business losses
- Items that reduce adjusted gross income, such as deductible IRA contributions, deductible moving expenses, student loan interest, qualified educator expenses, etc.

Several popular itemized deductions are still allowed regardless of AMT:

- Charitable contributions
- Mortgage interest on acquisition costs, home improvements and construction of a home,

including a second home (the second home is defined less liberally for AMT purposes; for example, it does not include a boat or motorhome)

- Medical expenses that exceed 10% of your adjusted gross income
- Casualty losses

Unfortunately, these common items do not provide benefits within the AMT system:

- Property taxes
- Personal exemptions
- Standard deduction (if you don't itemize, this is added back)
- State income tax paid (if you itemize)
- Miscellaneous itemized deductions subject to the 2% AGI limitation
- The deferral of income from the exercise of ISOs

Note: Incentive stock options (ISOs) are taxed earlier for AMT than for regular tax. For regular tax purposes, the taxpayer is not taxed on the ISO until it is sold. For AMT, if the ISO is not sold within the year it is exercised, the bargain element is added to alternative minimum taxable income.

Potential credit for these taxes

You may be able to obtain a credit for your prior year(s) minimum tax that you paid. Form 8801, *Credit for Prior Year Minimum Tax – Individuals, Estates, and Trusts*, is used to calculate the credit. The calculation of this credit is complicated. Depending on what caused your AMT, you may get some, all, or none of the AMT paid as a credit. Discuss this with your tax professional.

Help is available

The AMT calculation and the minimum tax credit are complex calculations best handled by a tax professional. This brochure is meant to provide a basic overview of these concepts. For further information and assistance, consult with your tax professional.

What is AMT?



This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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