Alternative Minimum Tax

What?

The Alternative Minimum Tax (AMT) was created in 1969 when 155 taxpayers with income over $200,000 paid no tax. Congress wanted to make sure rich taxpayers couldn't escape tax with deductions and credits. Now, over 40 years later, the AMT affects over 4 million ordinary taxpayers.
Why is that? The AMT was never properly adjusted for inflation, and what was considered rich in 1969 is middle-income now. Each year, at the very last minute, Congress extends the current AMT exemption level and adjusts it a bit for inflation. Without this adjustment, an estimated 21 million taxpayers would be affected.

AMT is a big American tax problem. Congress realizes that it has gone way beyond its intended purpose, but it also creates revenue which must be offset if it is to be repealed.

How does AMT work?

Very simply stated, AMT starts with your taxable income (after deductions and exemptions) and makes you ***add back*** certain deductions to arrive at a new taxable income. A flat tax is figured on this new income and, if the result is higher than your regular tax, you have AMT.

What triggers AMT?

The common items you have to ***add back*** in the calculation of AMT are the following:

- Mortgage interest on loans not used to buy, improve, or build your home
- State and local tax deductions for income, sales, real estate, and personal property tax
- Medical expenses in excess of 10% of your income are allowed in figuring AMT, so taxpayers deducting medical will have to add back a portion of their deduction.
- Miscellaneous deductions for employee expenses and investment expenses
- Exemptions for the taxpayer and his/her family
- The standard deduction
- Incentive stock options that are held instead of sold in the year exercised

Who is most likely to be a victim of AMT?

- Taxpayers with incomes under $51,900 (single) and $80,750 (married/joint) will not be affected because these amounts are exempt for 2013. As income increases, the chance of AMT becomes greater.
- Higher income taxpayers with home equity loans, employee expenses or investment expenses
- Taxpayers who live in a state with high income or high real estate tax
- Taxpayers with large families
- Taxpayers who exercise and *hold* incentive stock options

To protect yourself from the effects of AMT, you might consider lowering your income, moving to a lower taxed state, getting your employer to reimburse expenses, managing your own investment accounts, selling incentive stock options when exercised, curtailing the size of your family, or (the best option) ***calling your representative in congress.***