

# 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that it has gone way beyond its intended purpose, but it also creates revenue which must be offset if it is to be repealed.*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.***