Alternative Minimum Tax Pains!

Presented by: Melinda Garvin, EA
OH NO! AMT
Another Miserable Tax!

▪ What *really* caused AMT to show up?

▪ Is There *Anything* You Can Do?
AMT Objectives

1. Identify AMT adjustment and preference items.
2. Distinguish between temporary and permanent AMT adjustments.
4. Determine what, if any, damage control can be done to minimize or eliminate AMT.
Let’s learn about AMT using a different method…..without our eyes rolling back in our heads!
AMT

- Form 6251
  - Part I – adjustments and preferences
  - Part II – calculate AMT
  - Part III – capital gains rates
# Alternative Minimum Tax—Individuals

For 2013

**Part I** Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1. If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)

2. Medical and dental. If you or your spouse was 65 or older, enter the smaller of Schedule A (Form 1040), line 4, or 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-

3. Taxes from Schedule A (Form 1040), line 9

4. Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line.

5. Miscellaneous deductions from Schedule A (Form 1040), line 27.

6. If Form 1040, line 38, is $150,000 or less, enter -0-. Otherwise, see instructions.

7. Tax refund from Form 1040, line 10 or line 21

8. Investment interest expense (difference between regular tax and AMT).

9. Depletion (difference between regular tax and AMT).

10. Net operating loss deduction from Form 1040, line 21. Enter as a positive amount.

11. Alternative tax net operating loss deduction

12. Interest from specified private activity bonds exempt from the regular tax

13. Qualified small business stock (7% of gain excluded under section 1202)

14. Exercise of incentive stock options (excess of AMT income over regular tax income)

15. Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)

16. Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)

17. Disposition of property (difference between AMT and regular tax gain or loss)

18. Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)

19. Passive activities (difference between AMT and regular tax income or loss)

20. Loss limitations (difference between AMT and regular tax income or loss)

21. Circulation costs (difference between regular tax and AMT)

22. Long-term contracts (difference between AMT and regular tax income)

23. Mining costs (difference between regular tax and AMT)

24. Research and experimental costs (difference between regular tax and AMT)

25. Income from certain installment sales before January 1, 1987

26. Intangible drilling costs preference

27. Other adjustments, including income-based related adjustments

28. **Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $230,550, see instructions.)
AMT

- Adjustments and preferences
  - Preferences increase AMTI
  - Adjustments increase or decrease AMTI
  - Standard deduction and personal exemption deduction not allowed for AMT
## TWO ENGINES

<table>
<thead>
<tr>
<th>ENGINE REGULAR TAX</th>
<th>ENGINE AMT TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Some items receive special treatment for regular tax purposes</td>
<td>- Adjustments +/- and netting is allowed</td>
</tr>
<tr>
<td>- Adjustments</td>
<td>- Preferences = <strong>Bad!</strong> as they always increase AMTI</td>
</tr>
<tr>
<td>- Preferences receive special treatment for regular tax</td>
<td></td>
</tr>
</tbody>
</table>
Standard Deduction

- Standard deduction, including add’l for elderly/blind is not allowed for AMT
- Must stay consistent for reg’l and AMT
- If reg’l did not itemize – no entry on 6251

If taxpayer owed AMT – might be able to lower total tax by itemizing even if less than standard deduction – if the itemized deductions are allowed for AMT
Personal Exemptions

- It’s Simple – they are not allowed for AMT
Itemized Deductions

- If itemizes – line 1 starts with line 41 from 1040
  - AGI less deduction for itemized deductions
# AMT – Itemized Deductions

<table>
<thead>
<tr>
<th>Item</th>
<th>AMT Rule</th>
<th>Adjustment on 6251</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical expenses</td>
<td>Medical expenses exceeding 10% of AGI are allowed.</td>
<td>Line 2 – Add back the lesser of 2.5% of AGI if taxpayer qualifies for 7.5% or the medical expenses allowed on Schedule A.</td>
</tr>
<tr>
<td>Taxes</td>
<td>Not allowed.</td>
<td>Line 3 – Add back all taxes deducted on Schedule A except any generation-skipping transfer taxes on income distributions.</td>
</tr>
<tr>
<td>Home mortgage interest</td>
<td>Interest on debt that is used to buy, build or improve a qualified main home or second home is allowed.</td>
<td>Line 4 – Add back the disallowed interest.</td>
</tr>
<tr>
<td>Miscellaneous itemized deductions subject to 2%</td>
<td>Not allowed.</td>
<td>Line 5 – Add back the entire amount.</td>
</tr>
<tr>
<td>Tax refund from Form 1040, Line 10 or Line 21</td>
<td>Not included in AMTI because it was not deducted for AMT.</td>
<td>Line 7 – Subtract tax refund included in gross income for regular tax purposes.</td>
</tr>
<tr>
<td>Investment interest expense</td>
<td>Allowed for AMT.</td>
<td>Line 8 – Complete second Form 4952 for AMT purposes.</td>
</tr>
</tbody>
</table>
AMT

- Adjustments and preferences
  - Alternative tax net operating loss (ATNOL)
    - Limited to 90% of AMTI
  - Interest from private activity bonds
    - Not a tax preference if bond issued in 2009 or 2010
  - Qualified small business stock
    - Generally 7% of excluded gain added back
DEPRECIATION

- Post-1986 depreciation refigured for AMT if:
  - Property placed in service after 1998 and depreciated using 200% declining balance method, unless claim bonus depreciation
  - Section 1250 property placed in service after 1998 that is not depreciated using straight line
  - Tangible property placed in service after 1986 and before 1999
## CLASS LIVES FOR AMT

- **Listed in Rev Proc 87-56**
- **Clarified and Modified in Rev Proc 88-22**
- **Listed in Pub 946**
- **For tangible personal property not assigned; use 12 yrs**

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Property Placed in Service Before 1999 THEN use the…</th>
<th>Property Placed in Service After 1998 THEN use the…</th>
</tr>
</thead>
<tbody>
<tr>
<td>§1250 property</td>
<td>Straight line method over 40 years.</td>
<td>Straight line method over the same life, so it would be 27.5 years for residential rental and 39 years for nonresidential rental.</td>
</tr>
<tr>
<td>Tangible property (other than §1250 property) depreciated using straight line for the regular tax.</td>
<td>Straight line method over the property's AMT class life.</td>
<td>Straight line method over the same life.</td>
</tr>
<tr>
<td>Any other tangible property or property for which an election is in effect under §168(k)(2)(C)(iii) to elect out of the bonus depreciation.</td>
<td>150% declining balance method, switching to straight line the first tax year it gives a larger deduction, over the property's AMT class life.</td>
<td>Use the 150% declining balance method over the same life, switching to straight line the first year it gives a larger deduction.</td>
</tr>
<tr>
<td>Bonus depreciation property that is qualified property under §168(k) (property eligible for the special depreciation allowance).</td>
<td>Did not exist prior to 1999.</td>
<td>The special allowance is deductible for AMT. There also is no adjustment required for any depreciation figured on the remaining basis of the qualified property.</td>
</tr>
</tbody>
</table>
DEPRECIATION

- Depreciation is **not** refigured for property placed in service after 1998 if it is:
  - Residential rental property
  - Nonresidential real property with class life of 27.5 years or more depreciated using straight line
  - Tangible personal property depreciated using 150% declining balance method
  - Qualified property eligible for bonus depreciation
  - Property expensed under §179
AMT

- Computing AMT
  - AMT exemption

<table>
<thead>
<tr>
<th>2014</th>
<th>Exemption Amount and Phase out Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filing Status</td>
<td></td>
</tr>
<tr>
<td>Single or Head of Household</td>
<td>$52,800 $117,300 - $328,500</td>
</tr>
<tr>
<td>Married Filing Jointly or Qualifying Widow(er)</td>
<td>$82,100 $156,500 - $484,900</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$41,050 $ 78,250 - $242,450</td>
</tr>
</tbody>
</table>

Exemption amount is reduced by 25% of the amount AMTI exceeds amount for filing status

Alternative minimum tax is calculated in Part II of Form 6251

Tentative Minimum Tax = sum of:

* 26% of the first $182,500 ($91,250 for MFS) of AMTI

* 28% of an AMTI in excess of threshold ($182,500 all but MFS @ $91,250)