



Internal Revenue Service

DEPARTMENT OF THE TREASURY

LB&I Process Unit

Unit Name	How to Compute the AMT FTC	
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Book	Foreign Tax Credits Individual
Chapter	Calculation of Amount of Allowable FTC

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Process Overview

How to Compute the AMT FTC

The Alternative Minimum Tax (AMT), is an additional tax that may apply to certain taxpayers who have certain types of income that receive favorable tax treatment, or who qualify for certain deductions. These tax benefits can significantly reduce the “regular” taxes of some taxpayers who have higher economic income. Therefore, the AMT sets a limit on the amount of these tax benefits that can be used to reduce total tax. The AMT is thus designed to prevent taxpayers with higher economic income from using various tax benefits in the U.S. tax system to avoid paying most or all of their U.S. taxes.

AMT is computed after “regular” taxable income and the “regular” income tax have been determined. The calculation of AMT starts with regular taxable income before exemptions, which is increased and/or decreased for various preferences to arrive at alternative minimum taxable income (AMTI). AMTI is then used to compute the AMT similar to how “regular” taxable income is used to compute the “regular” income tax.

When AMTI includes foreign source income that has been subject to foreign taxes, the same concept that applies to “regular” income tax applies to AMT. Just as the foreign tax credit helps taxpayers reduce their regular income tax, the alternative minimum tax foreign tax credit (AMT FTC) helps taxpayers reduce their AMT.

This Practice Unit focuses on the processes and other relevant considerations that are involved in the computation of the AMT FTC. Additionally, the processes covered in this Unit demonstrate the framework for computing the AMT which provides the context for the rule of the AMT FTC, and the computation of AMT FTC itself, which is done by first determining the AMT FTC limitation and then comparing that to the amount of creditable foreign taxes that are actually paid or accrued. Furthermore, potential limitations to the AMT FTC such as the AMT FTC carryback and carryover provisions will be discussed.

Detailed Explanation of the Process

How to Compute the AMT FTC

Analysis

The AMT FTC is computed using the same limitation rules that apply to the foreign tax credit for regular tax purposes. It should be noted that separate computations are required for each category of income, i.e. passive, general, etc. The total AMT FTC is the aggregate of the AMT FTC determined for each separate category of income.

Before computing the AMT FTC, the first step is to understand its role in determining the AMT. Please note that even if taxpayers are not ultimately subject to AMT, a record of the computation of AMT FTC is necessary for potential carryback and carryforward purposes.

The next step is then to calculate the AMT FTC limitation. This is done by multiplying the ratio of foreign source AMTI to total AMTI by gross AMT. A Simplified Limitation Election potentially allows taxpayers to compute AMT FTC limitation using a more “simplified” calculation as opposed to the traditional calculation. If the Simplified Limitation Election is applicable, foreign source taxable income as computed for regular foreign tax credit (FTC) purposes is used in the numerator to compute the AMT FTC limitation instead of foreign source AMTI.

Finally, the AMT FTC in each category of separate income is determined as the lesser of actual creditable foreign taxes paid or accrued, or the AMT FTC limitation for each separate category of income.

If the AMT FTC is limited because the foreign taxes paid or accrued exceed the AMT FTC limitation, the unused foreign taxes may be carried over for use in other years, similar to the carryback and carryforward requirements applicable to the regular FTC.

Process Applicability

How to Compute the AMT FTC

AMT FTC reduces taxpayers' AMT similar to the way the FTC reduces taxpayers' regular tax liabilities. The AMT FTC computation and related processes are similar to the concepts and processes for computing the regular FTC.

Criteria	Resources
<ul style="list-style-type: none"> ▪ Are taxpayers who claim the regular foreign tax credit also subject to AMT? 	<ul style="list-style-type: none"> ▪ IRC 55 ▪ IRC 56 ▪ IRC 57 ▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>
<ul style="list-style-type: none"> ▪ Does the Simplified Limitation Election apply for purposes of computing the AMT FTC limitation? 	<ul style="list-style-type: none"> ▪ IRC 59(a)(3) ▪ IRC 904 ▪ Form 1116 - <i>Foreign Tax Credit</i> ▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>
<ul style="list-style-type: none"> ▪ Have taxpayers maintained a record of their AMT FTC calculation for carryover purposes even in years in which they are not otherwise liable for AMT? 	<ul style="list-style-type: none"> ▪ IRC 59(a) ▪ IRC 904(a) ▪ Form 1116 - <i>Foreign Tax Credit</i> ▪ Form 1116 Instructions ▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i> ▪ Form 6251 Instructions

Summary of Process Steps

How to Compute the AMT FTC

Process Steps

The examiner should generally first determine whether the applicable taxpayer claimed the regular FTC. Once this determination has been made, the examiner should understand the role of the AMT FTC in the determination of the AMT. Next, the examiner should compute the AMT FTC Limitation. Finally, the AMT FTC is determined as the lesser of the AMT Limitation and the creditable foreign taxes actually paid or accrued.

Step 1	Determine Pre-Credit Tentative Minimum Tax
Step 2	Compute AMT FTC Limitation
Step 3	Determine AMT FTC - Determine AMT FTC by Comparing the AMT FTC Limitation to Creditable Foreign Taxes.

Step 1: Determine Pre-Credit Tentative Minimum Tax

How to Compute the AMT FTC
Step 1
Determine the Pre-Credit Tentative Minimum Tax (TMT)

Considerations	Resources
<p>Step one is to have a basic understand of the AMT computation and where the AMT FTC fits within that computation. While a detailed discussion on the AMT is beyond the scope of this Unit, a brief explanation on determining the AMT is necessary for the purposes of computing the AMT FTC. AMT is computed after regular taxable income and tax have been computed.</p> <p>AMT is computed as follows:</p> <ol style="list-style-type: none"> 1. Begin with taxable income before exemptions from the Form 1040 or Form 1040NR. 2. Next, add or subtract any adjustments as described by IRC 56 and IRC 58 to taxable income before exemptions on Form 6251. Adjustments may either be added or subtracted to taxable income before exemptions. Common adjustment items include medical and dental expenses, miscellaneous deductions from Schedule A, and investment interest expense. 	<ul style="list-style-type: none"> ▪ IRC 55 ▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i> ▪ Form 6251 Instructions ▪ IRC 56 ▪ IRC 58

Step 1: Determine Pre-Credit Tentative Minimum Tax (cont'd)

How to Compute the AMT FTC

[Step 1](#)

Considerations	Resources
<p>3. Tax preference items are then added to taxable income before exemptions; adjustment items may either be added or subtracted from taxable income before exemptions on Form 6251, while preference items will only be added. Common preference items include depletion, excess intangible drilling costs, interest on specified private activity bonds, accelerated depreciation or amortization on property placed in service before January 1, 1987, and the exclusion of gain on the sale of qualified small business stock.</p> <p>4. AMTI is calculated by taking taxable income before exemptions, adding or subtracting any adjustments, and then adding any tax preference items; note this computation is similar to the computation for regular taxable income. AMTI is the amount used to compute the TMT, which ultimately helps determine whether or not taxpayers are subject to the AMT. Consider the following example.</p> <p>Example 1:</p> <p>Assume taxpayer C had taxable income before exemptions of \$50,000. Assume also that C had \$1,500 in taxes from Schedule A and also \$5,000 in depletion. C's AMTI is computed by taking his taxable income before exemption of \$50,000, adding the adjustment item of \$1,500 in taxes, and adding the preference item of \$5,000 in depletion to arrive at AMTI of \$56,500.</p>	<ul style="list-style-type: none">▪ IRC 57▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>▪ Form 6251 Instructions <ul style="list-style-type: none">▪ IRC 55(b)(2)

Step 1: Determine Pre-Credit Tentative Minimum Tax (cont'd)

How to Compute the AMT FTC

[Step 1](#)

Considerations	Resources
<p>5. Next, determine the exemption amount and subtract that from AMTI. If the result is greater than zero, multiply the result by the applicable AMT tax rate to arrive at pre-credit TMT. This is the point at which the AMT FTC comes into play. The AMT FTC is subtracted from the pre-credit TMT to determine the tentative tax amount, or TMT. The TMT is the basic amount of tax that a taxpayer must pay. It's referred to as a tentative tax because this amount must first be compared with a taxpayer's regular tax liability in order to determine if that taxpayer has an AMT liability. If the TMT is less than a taxpayer's regular tax liability, then that taxpayer will not be subject to the AMT. In essence, the taxpayer's regular tax liability satisfies the minimum amount of tax that the taxpayer must pay. However, if the TMT is greater than the regular tax liability, then the difference between the TMT and the regular tax, is the taxpayer's AMT. See the examples on the next slide.</p>	<ul style="list-style-type: none">▪ IRC 55(a)▪ IRC 55(b)▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>▪ Form 6251 Instructions

Step 1: Determine Pre-Credit Tentative Minimum Tax (cont'd)

How to Compute the AMT FTC

[Step 1](#)

Considerations	Resources
<p>Example 2:</p> <p>Assume that taxpayer T's TMT was \$1,000 and that her regular tax liability was \$1,500. Since the difference between T's TMT and regular tax is negative, T is not subject to AMT.</p> <p>Example 3:</p> <p>Now, assume that taxpayer T's TMT was \$1,500 and her regular tax liability was \$1,000. Since the difference between T's TMT and regular tax is positive, T is now subject to AMT.</p>	

Step 2: Compute AMT FTC Limitation

How to Compute the AMT FTC

Step 2

Compute the AMT FTC Limitation

Considerations	Resources
<ul style="list-style-type: none">▪ As stated earlier, for taxpayers who claim the regular FTC, in order to compute AMT, it is necessary to determine the AMT FTC. Again, just as the FTC helps taxpayers reduce their regular income tax, the AMT FTC helps reduce taxpayers' AMT. More specifically, the AMT FTC is taken into account for purposes of determining the TMT described earlier.▪ A separate AMT FTC must be determined with respect to each separate category of income, i.e., passive, general, etc. This is done by completing a separate AMT Form 1116 for each separate category of income.▪ In order to determine the AMT FTC, the first step is to calculate the AMT FTC limitation. <p> CAUTION: Note that the computation of the AMT FTC is done on a separate Form 1116, which should be labeled "AMT FTC" at the top of the form to distinguish it from the regular Form 1116.</p>	<ul style="list-style-type: none">▪ IRC 59(a)▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>▪ Form 6251 Instructions▪ Form 1116 - <i>Foreign Tax Credit</i>

Step 2: Compute AMT FTC Limitation (cont'd)

How to Compute the AMT FTC

[Step 2](#)

Considerations	Resources
<ul style="list-style-type: none">▪ The AMT FTC limitation is equal to the ratio of foreign source AMTI to total AMTI multiplied by the gross AMT.▪ Foreign source AMTI, the numerator in the ratio, is determined by separating foreign source income into each separate category and subtracting the deductions attributable to the foreign source income in that category, using only income and deductions that are allowed for the AMT. In instances where tax preference items need to be accounted for, it is necessary to allocate them either to “U.S. source” or “foreign source” for AMT FTC purposes depending on whether they are wholly or ratably allocable to either type of income.▪ If the taxpayer has any foreign source qualified dividends of foreign source capital gain or losses, you may need to make certain rate differential adjustments under section 904(b). A discussion of these adjustments is beyond the scope of this Unit.	<ul style="list-style-type: none">▪ IRC 59(a)(1)(A)▪ IRC 59(a)(1)(B)▪ IRC 904(a)▪ IRM 4.61.10.13▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>▪ Form 6251 Instructions▪ Form 1116 - <i>Foreign Tax Credit</i>

Step 2: Compute AMT FTC Limitation (cont'd)

How to Compute the AMT FTC

[Step 2](#)

Considerations	Resources
<p>Example 4:</p> <p>Assume that taxpayer Z had taxable income before exemptions of \$50,000, of which \$25,000 is foreign source general income. Assume also that Z had \$1,500 in taxes from Schedule A, of which 50% is attributable to foreign source general income, and also \$5,000 in depletion, all of which is attributable to U.S. source income.</p> <p>Z's AMTI is computed by taking his taxable income before exemption of \$50,000, adding the adjustment item of \$1,500 in taxes, and adding the preference item of \$5,000 in depletion to arrive at AMTI of \$56,500. Z's foreign source general AMTI is computed by taking his foreign source general taxable income before exemptions of \$25,000, and adding \$750 (50% of the adjustment item of \$1,500 in taxes) to arrive at foreign source general AMTI of \$25,750.</p>	

Step 2: Compute AMT FTC Limitation (cont'd)

How to Compute the AMT FTC

[Step 2](#)

Considerations	Resources
<ul style="list-style-type: none">▪ Total AMTI, the denominator in the ratio, is the AMTI used in calculating the TMT as part of determining AMT. If the taxpayer has any qualified dividends or capital gain or losses, you may need to make certain rate differential adjustments under section 904(b). A discussion of these adjustments is beyond the scope of this Unit.▪ Once the ratio of foreign source AMTI to total AMTI has been determined, this ratio is multiplied by gross AMT in order to get the AMT FTC limitation. Remember, this calculation is done for each separate category of income.▪ The gross AMT used for purposes of calculating the AMT FTC limitation is an amount equal to AMTI multiplied by the AMT tax rate. In other words, the amount determined in the first step in calculating TMT, before taking into account the AMT FTC.	<ul style="list-style-type: none">▪ IRC 59(a)(1)(A)▪ IRC 59(a)(1)(B)▪ IRC 904(a)▪ IRM 4.61.10.13▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>▪ Form 6251 Instructions▪ Form 1116 - <i>Foreign Tax Credit</i>

Step 2: Compute AMT FTC Limitation (cont'd)

How to Compute the AMT FTC

[Step 2](#)

Considerations

Resources

Example 5:

Assume that taxpayer A computed AMTI to be \$180,000. Assume that all of A's AMTI was general category income. Additionally, \$40,000 of his total AMTI of \$180,000 was foreign source. Now assume that A's gross AMT was \$38,486.

In this case, A's AMT FTC limitation would be \$8,552, which is found by dividing A's foreign source AMTI of \$40,000 by his total AMTI of \$180,000, and then multiplying that fraction by his gross AMT of \$38,486. This computation is very similar to the computation for the regular foreign tax credit. See below for additional information.

Facts from Example 5

1) Foreign Source AMTI divided by total AMTI	$\$40,000 / \$180,000 = .22$
2) Multiplied by Gross AMT	$\$38,486 \times .22$
3) AMT FTC Limitation	\$8,552

Step 2: Compute AMT FTC Limitation (cont'd)

How to Compute the AMT FTC

[Step 2](#)

Considerations	Resources
<ul style="list-style-type: none">▪ In various circumstances, an election may be available for taxpayers to compute their AMT FTC limitation using a simplified method. This method is called the Simplified Limitation Election and only affects the determination of the numerator, the foreign source AMTI. The other elements in the AMT FTC limitation calculation are not changed by the Simplified Limitation Election, namely the total AMTI and the AMT.▪ This election allows taxpayers to eliminate the step of computing their foreign source AMTI and instead allows taxpayers to use foreign source taxable income, which is computed in Part I of Form 1116 for “regular” foreign tax credit purposes. <p> CAUTION: The aggregate amount of foreign source taxable income used for the calculations in each separate category of income may not exceed the total AMTI.</p> <ul style="list-style-type: none">▪ Note that this simplified method may be beneficial for individuals who have numerous items to take into consideration when allocating AMTI between U.S. and foreign source, including the allocation of tax preference items between foreign source and U.S. source.	<ul style="list-style-type: none">▪ IRC 59(a)(1)(3)▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>

Step 2: Compute AMT FTC Limitation (cont'd)

How to Compute the AMT FTC

[Step 2](#)

Considerations	Resources
<ul style="list-style-type: none">▪ For years after 1997 in which taxpayers claim an AMT FTC and want to make the Simplified Limitation Election, such taxpayers must make the election for the first year in which they claim the AMT FTC. For example, if a taxpayer wants to make the Simplified Limitation Election to claim the AMT FTC in the years 2014, 2015, and 2016, the taxpayer must make the election beginning with the 2014 tax year, assuming that year is the first year in which the taxpayer claims the AMT FTC. In other words, the taxpayer can't decide in 2016 that he or she wants to make the simplified election after having claimed AMT FTC in 2014 and 20015 and having not made the election.▪ Additionally, keep in mind that once a taxpayer makes the Simplified Limitation Election, that taxpayer is required to use this method for all subsequent years unless the taxpayer obtains IRS consent to revoke it.▪ Note that no specific statement of election is required. The election is evidenced simply by filing the Form 6251 using the foreign source income numbers from the Form 1116 instead of computing foreign source AMTI.	<ul style="list-style-type: none">▪ IRC 59(a)(3)▪ Form 6251 Instructions

Step 3: Determine AMT FTC

How to Compute the AMT FTC

Step 3

Determine the AMT FTC by comparing the AMT FTC Limitation to creditable foreign taxes.

Considerations	Resources
<ul style="list-style-type: none"> ▪ The AMT FTC for each separate category is the lesser of the AMT FTC limitation, determined in step 2, or the actual creditable foreign taxes attributable to that category. The total AMT FTC reported on Form 6251 is the aggregate of the AMT FTC determined for each separate category of income. ▪ For purposes of determining the AMT FTC, creditable foreign taxes generally include both creditable taxes paid or accrued during the current taxable year as well as unused creditable foreign taxes carried over from other taxable years in which the creditable foreign taxes exceeded, and therefore were capped by, the AMT FTC limitation. The unused amounts of foreign taxes are subject to the same carryback and carry forward requirements as the regular FTC. Carrybacks and carry forwards must be accounted for separately for each category of income. Unused AMT FTC is carried back 1 year and then any remaining unused AMT FTC is carried forward to the next 10 years in progressive order. A period of less than 12 months for which a return is made is considered a tax year. 	<ul style="list-style-type: none"> ▪ IRC 59(a)(1)(A) ▪ IRC 59(a)(1)(B) ▪ IRC 59 (a)(3) ▪ IRC 904 ▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i> ▪ Form 6251 Instructions

Step 3: Determine AMT FTC (cont'd)

How to Compute the AMT FTC

[Step 3](#)

Considerations	Resources
<p> CAUTION: Creditable foreign taxes can be carried over from taxable years in which the taxpayer was not otherwise subject to the AMT. In order to correctly determine the carryover amount, the taxpayer must fully calculate the AMT FTC for those years despite the fact they are not otherwise subject to the AMT.</p> <p>Example 6:</p> <p>Assume in Year 1, taxpayer B paid or accrued \$1,500 of creditable foreign taxes and calculated an AMT FTC limitation of \$1,000 for that year. Further assume in Year 2, B paid or accrued \$900 of creditable foreign taxes and calculated an AMT FTC limitation of \$1,600 for that year.</p> <p>In Year 1, B's AMT FTC is limited by the AMT FTC limitation to \$1,000, leaving \$500 of unused creditable foreign taxes in that year.</p> <p>In Year 2, for purpose of determining the AMT FTC, B's paid or accrued creditable foreign taxes are increased by the \$500 of unused foreign taxes carried over from Year 1 (assuming none of the \$500 was carried back to the prior year) for a total of \$1,400. Because this amount is still less than the AMT FTC limitation of \$1600 for Year 2, B will get an AMT FTC for the full \$1,400 of creditable foreign taxes.</p>	<ul style="list-style-type: none">▪ IRC 59(a)(3)▪ Form 6251 - <i>Alternative Minimum Tax - Individuals</i>▪ Form 6251 Instructions

Other Considerations / Impact to Audit

How to Compute the AMT FTC

Considerations	Resources
<ul style="list-style-type: none">▪ Just like with regular FTC, the AMT FTC is also limited. When the AMT FTC is limited, the unused amounts are limited to the same carryback and carryforward requirements as the regular FTC. Carrybacks and carryforwards must be accounted for separately for each category of income. Unused AMT FTC is carried back 1 year and then any remaining unused AMT FTC is carried forward to the next 10 years in progressive order. A period of less than 12 months for which a return is made is considered a tax year.	<ul style="list-style-type: none">▪ IRC 904(c)▪ IRC 904(d)

Index of Referenced Resources

How to Compute the AMT FTC
IRC 55
IRC 56
IRC 57
IRC 58
IRC 59
IRC 904
Form 1116 - <i>Foreign Tax Credit</i>
Form 1116 Instructions
Form 6251 - <i>Alternative Minimum Tax - Individuals</i>
Form 6251 Instructions
IRM 4.6.10.13

Training and Additional Resources

How to Compute the AMT FTC	
Type of Resource	Description(s)
Saba Meeting Sessions	<ul style="list-style-type: none"> ▪ <i>How to Audit FTC – FTC Concepts</i> – 2015 Saba Meeting ▪ <i>How to Audit FTC – Form 1116, Part 1</i> – 2015 Saba Meeting ▪ <i>How to Audit FTC – Form 1116, Part 2</i> – 2015 Saba Meeting ▪ <i>How to Audit FTC – Form 1116, Part 3</i> – 2015 Saba Meeting ▪ <i>Alternative Minimum Foreign Tax Credit (AMT FTC) Law and Application</i> – 2016 Saba Meeting
Issue Toolkits	<ul style="list-style-type: none"> ▪ FTC Workbook used to assist agents in computing FTC limitation for Form 1116. The FTC Workbook is available on the WIIC FTC Practice Network SharePoint site under “Best Practices.”
Databases / Research Tools	<ul style="list-style-type: none"> ▪ <i>Kuntz & Peroni US International Taxation</i> Para B4.03[3][c] ▪ <i>Bittker & Lokken Fed. Tax’n Inc, Est and Gift</i> Para 72.4.6.4
Reference Materials – Treaties	<ul style="list-style-type: none"> ▪ Applicable Tax Treaty http://www.treasury.gov/resource-center/tax-policy/treaties/Pages/treaties.aspx
Other Training Materials	<ul style="list-style-type: none"> ▪ FTC Workbook Training “Back to Basics” Series . These sessions are available on the WIIC FTC Practice Network SharePoint site under “Best Practices.”

Glossary of Terms and Acronyms

Term/Acronym	Definition
AGI	Adjusted Gross Income
AMT	Alternative Minimum Tax
AMTI	Alternative Minimum Taxable Income
AMT FTC	Alternative Minimum Tax Foreign Tax Credit
FTC	Foreign Tax Credit
TMT	Tentative Minimum Tax

Index of Related Practice Units

Associated UIL(s)	Related Practice Unit
9432	<i>FTC General Principles</i>
9432	<i>Sourcing of Salary and Compensation</i>
9432	<i>Sourcing of Income</i>
9432	<i>Categorization of Income and Taxes Into Proper Basket</i>