



# Understanding the Alternative Minimum Tax (AMT) for Individuals

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# A Brief History of the AMT

## The AMT:

- Was originally enacted to keep high-income individuals from escaping payment of income tax
- Exemption amounts were never indexed to inflation
- Now affects many middle-income individuals
- Has become an important source of revenue that would be difficult to replace

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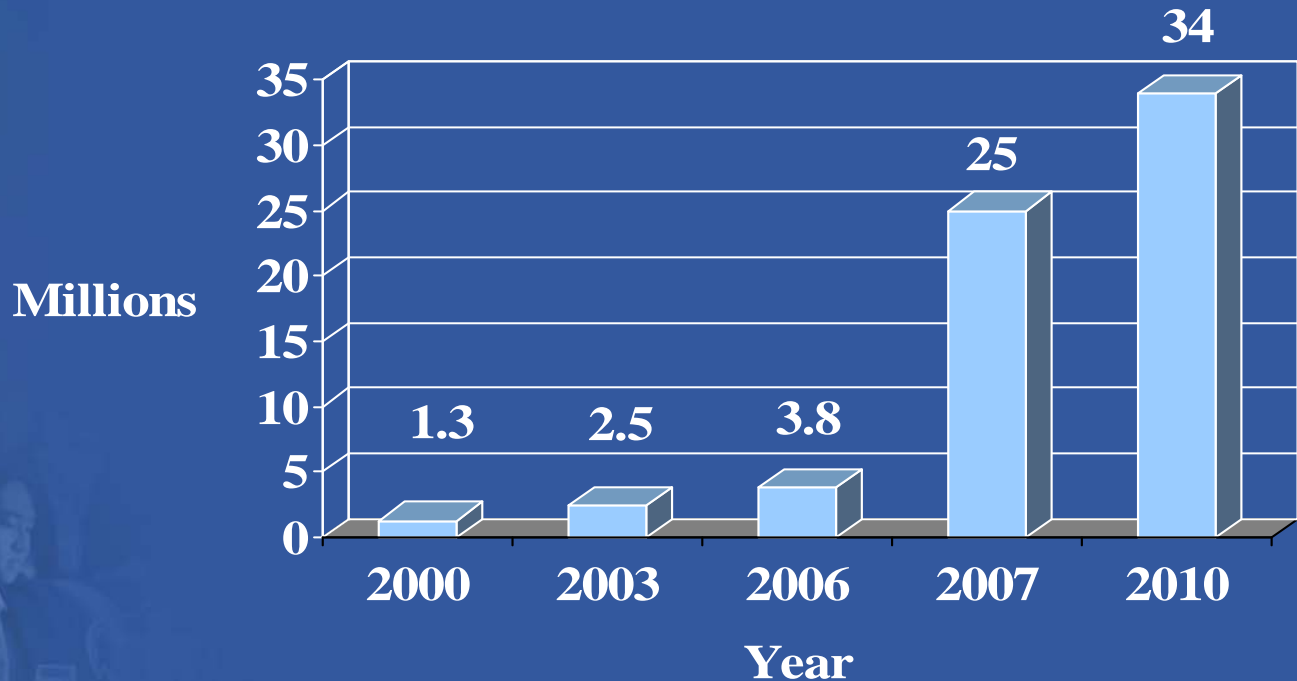
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# Individuals Subject to the AMT

Number of Individuals Affected



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# How To Figure AMT

- Step 1. Modify regular taxable income to get alternative minimum taxable income
- Step 2. Subtract AMT exemption amount and figure tentative minimum tax (limits some credits)
- Step 3. Subtract regular tax (with some adjustments) to get alternative minimum tax

# Step 1. Alternative Minimum Taxable Income

- Begin with regular taxable income
- Add or subtract AMT adjustments (IRC sections 56, 58, and 59)
- Add AMT tax preference items (IRC section 57)
- Equals alternative minimum taxable income

# Major Adjustments and Preferences

- Exemptions and standard deduction
- Taxes itemized on Schedule A
- Job expenses and certain miscellaneous itemized deductions subject to 2% floor
- Medical expenses ( $\uparrow$  AGI limit)
- Private activity bond interest
- Certain home mortgage interest
- Depreciation
- Passive activity income or loss
- Disposition of property
- Incentive stock options

## Step 2. Tentative Minimum Tax

- Begin with alternative minimum taxable income
- Subtract AMT exemption amount
- Equals taxable excess
- Figure tax on taxable excess using AMT tax rates
- Subtract AMT foreign tax credit
- Equals tentative minimum tax

# Step 3. Alternative Minimum Tax

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- Start with tentative minimum tax
- Subtract regular tax reduced by:
  - (a) Tax on lump-sum distributions, and
  - (b) Regular foreign tax credit
- Equals alternative minimum tax



# Credit for Prior Year Minimum Tax

- AMT is caused by (a) deferral items (e.g., depreciation) that generally do not cause permanent differences and (b) exclusion items (e.g., exemptions) that do cause permanent differences
- Credit is for AMT from deferral items
- Use Form 8801 to figure the credit. Carry unused credits forward indefinitely
- For tax years beginning after 2006, the credit for prior year minimum tax cannot be less than the AMT refundable credit amount. The additional credit allowable under this provision is refundable.

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# Tentative AMT Refundable Credit Amount

- Figured as shown below
- The long-term unused minimum tax credit is the credit carryforward from the 3<sup>rd</sup> prior tax year reduced by credits claimed in the 1<sup>st</sup> & 2<sup>nd</sup> prior tax years

<b>If the long-term unused minimum tax credit is:</b>	<b>Then the tentative AMT refundable credit amount is:</b>
Less than \$5,000	The long-term unused minimum tax credit
At least \$5,000, but not more than \$25,000	\$5,000
More than \$25,000	20% of the long-term unused minimum tax credit

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# AMT Refundable Credit Amount

Equals tentative AMT refundable credit amount reduced by 2% for each \$2,500 (\$1,250 if MFS), or fraction thereof, that modified AGI exceeds the start of the AGI phase-out range for personal exemptions

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<b>Filing Status</b>	<b>Start of AGI Phase-Out for Personal Exemptions</b>
Single	\$156,400
Married filing jointly or qualifying widow(er)	\$234,600
Married filing separately	\$117,300
Head of household	\$195,500

# Additional Resources

- IRS AMT Assistant at <http://apps.irs.gov/app/amt2006>
- Form 6251, Alternative Minimum Tax—Individuals, and instructions at [www.irs.gov/formspubs](http://www.irs.gov/formspubs)
- Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, and instructions at [www.irs.gov/formspubs](http://www.irs.gov/formspubs)