

AMT Individual

Plan Today, Save Tomorrow

Newsletter

October 28, 2011

Dec. 31 is Fast Approaching! Have you done your AMT & Tax Forecasting & Planning?

In this edition we'll be focusing on the basic concepts underlying the Alternative Minimum Tax – the importance of various levels of taxable income and the different income tax brackets, the AMT exemption amount, and the phase-out of this exemption. Next issue we'll focus on some of the particular AMT items that prove to be the most troublesome, and what can be done about them.

The Starting Point...

Taxable Income

Each taxpayer has a threshold level of income that will trigger the Alternative Minimum Tax, and for each taxpayer this is different. For this purpose we are talking about *taxable income*, which simply is all of an individual's income less all allowable deductions. For example, a couple's W-2s might show \$100,000 of salary

income, but after taking the standard deduction (\$11,600) and two personal exemptions (\$3,700 each), taxable income for Regular Tax purposes for the couple actually is \$81,000.

As a separate but parallel tax system, the Alternative Minimum Tax has different rules on what items of income must be included and what deductions are allowed in computing *taxable income*. Looking to the above couple, for example, the AMT does not allow either the standard deduction or the personal exemptions, so for AMT purposes the couple's taxable income is the full \$100,000.

Tax brackets – the Regular

Tax: Shown here are the 2011 brackets for a couple filing a joint return. These brackets differ for the other filing statuses.

	<u>Taxable Income</u>	<u>Tax Bracket</u>
Up to	\$17,000	10%
Over	17,000	15%
Over	69,000	25%
Over	139,350	28%
Over	212,300	33%
Over	379,150	35%

GIBBLEGUTS.COM By Dan Gibson



You owe us 30% ... and we don't accept home-made popcorn balls or apples.

Tax brackets – the Alternative Minimum Tax:

The AMT has one set of brackets that apply to all filing statuses:

	<u>Taxable Income</u>	<u>Tax Bracket</u>
Up to	\$175,000	26%
Over	175,000	28%

The AMT exemption

Before applying these tax rates, however, the Alternative Minimum Tax exemption amount must be factored in.



Since Congress did not want everyone to be subject to the AMT, the tax law allows as a deduction against AMT income (the \$100,000 in our above example) what it calls the AMT exemption amount. Again varying by filing status, for 2011 the exemption available to a married couple is \$74,450. What this means, therefore, is that, after subtracting the exemption, our couple's AMT income is only \$25,550. Applying the 26% AMT bracket to this number produces a tentative AMT of \$6,643. But a taxpayer pays the AMT only if the calculated AMT liability is *greater* than the Regular Tax liability. Applying the Regular Tax rates shown above to our couple's \$81,000 of Regular Tax

income results of a tax of \$12,500. Since this is greater than the AMT tax, this couple is not subject to the AMT.

The Challenge - AMT exemption phase-out

A surprise that hits a lot of taxpayers, however, is that the exemption amount is gradually phased out as the taxpayer's income increases. It is this computational phase-out that is one of the primary reasons individuals get caught in the AMT. **The complexity of income and deductions moving in opposite directions requires individuals to use an AMT calculator to determine an accurate AMT amount and identify ways to reduce the AMT.**

For couples filing jointly, the AMT exemption phase-out begins once AMT income exceeds \$150,000. For other filing statuses the phase-out begins at lower levels. The way the phase-out works is that the exemption is reduced by \$1 for every \$4 of taxable income over the level. Thus, for example, taxable income of \$200,000 would mean the exemption would be reduced by \$12,500. Upper-income taxpayers can reach the point where their AMT exemption is totally eliminated.

Happenings

In the next newsletter, we'll go beyond these basic calculations and explore the individual AMT items that go into making taxable income for the AMT larger, and in many cases significantly larger, than it is for Regular Tax purposes, thus continuing to trap more and more people in AMT.

IRS announced: For tax year 2012, personal exemptions and standard deductions will rise and tax brackets will widen due to inflation. There was no adjustment for the AMT. Looks like taxpayers will have to wait for another AMT patch.

Latest AMTIndividual blog posting: IRS Releases 2011 Version of Form 6251 – Alternative Minimum Tax-Individuals, a Reminder That It's Time to Start Thinking about Year-End Tax Planning. www.amtblog.com

Tip - the best (and only) way to get tax savings is to forecast, plan and take action **before Dec. 31**. Go to www.AMTIndividual.com and calculate your 2011 taxes now!