

## **Beware of the Alternative Minimum Tax**

Many unsuspecting taxpayers will find themselves paying more income this year because of the Alternative Minimum Tax (AMT). This odd sounding tax was originally enacted in 1969 to force “high income” taxpayers to pay a “minimum” amount of tax even if they used various types of tax shelters available at that time.

One commentator said that the tax was aimed at 155 families with income over \$200,000 that paid little or no tax. Over the past 40 years, the AMT has been changed some, but it is now estimated that over 3 million taxpayers are subject to the AMT.

### **What is the AMT?**

The actual mechanics of the AMT can be complicated. In essence, after your regular tax is calculated, you do another tax calculation with adjustments to various income items, itemized deductions and personal exemption amounts and use the AMT tax rates of 26% to 28%. If the AMT calculation results in a higher tax, the difference is added to your regular income tax. That “add-on” is referred to as the alternative minimum tax.

### **What triggers the AMT?**

The answers lie in the adjustments that are made and the relationship between the AMT tax rates and your normal income tax bracket rates. Here is a brief description of some of the adjustments.

The primary adjustment to your income can come from the exercise of incentive stock options. Any difference between the exercise price and the fair market value on the date of exercise is added to your income for AMT purposes.

The itemized deductions that must be “added back” include most state and local income taxes and property taxes. Personal exemption amounts used to reduce your regular taxable income are not available for AMT purposes. Several other less common items can trigger the AMT as well.

The AMT exemption for 2020 is \$113,400 for couples and \$72,900 for individuals. These exemption amounts will be indexed for inflation in future years.

This article is a very general discussion of the AMT. Everyone’s tax situation is different and deserves focused attention. If you think you may be subject to the AMT, or if you are not comfortable with your understanding of the tax laws, consult a qualified tax professional to get the advice you and your taxes deserve.