Changes to the Alternative Minimum Tax as it Applies to Individual Taxpayers

The alternative minimum tax (AMT) was initially enacted to close tax loopholes for the wealthy, but in recent years, many middle income taxpayers have been surprised to find out they are paying AMT. Individual taxpayers are required to pay AMT when the liability calculated under the AMT rules is higher than their regular tax liability. Whether you have paid AMT in the past may have depended upon what type of itemized deductions you claimed on your return. Deductions such as state and local income taxes, real estate taxes, and miscellaneous itemized deductions are not allowed for AMT purposes. Perhaps depreciation adjustments, interest earned on private activity bonds, or the exercise of incentive stock options have been factors for you. In some cases, just having a significant amount of 15% income from long term capital gains and qualified dividends has gotten you caught in the AMT trap.

The patch Congressed passed for 2008 bumped up the AMT exemption but additional legislation will be required to keep the 2009 exemption at these levels. The phase outs that impact higher income taxpayers still apply but some taxpayers may benefit from being able to offset their AMT liability with designated nonrefundable personal credits, including but not limited to, the child tax credit, Hope Scholarship and Lifetime Learning education tax credits, and the adoption tax credit.

New for 2008 is the abatement of all unpaid AMT liability, including penalties and interest, resulting from the exercise of incentive stock options for tax years before 2008 so long as the amount was outstanding as of October 3, 2008. If taxpayers already paid these penalties and interest, they may be eligible to recover these amounts as part of the revised AMT credit rules. The AMT credit is not new but the rules have been significantly relaxed for 2008 to allow more people, especially higher income taxpayers, to benefit. Under the old rules, it could take taxpayers five years to benefit from accumulated AMT credits from pre-2004 years. Higher income individuals may never see a benefit because the refundable AMT credit privilege was partially or completely phased out for them. Huge improvements have been made to this provision and now the unused credit can be refunded over two years (e.g. 2008 and 2009 returns). Further credits generated in 2005 and later can also be recovered over two years once the credits are at least three years old.

If you have any questions about how your returns are impacted by these new AMT rules, please contact your Tonneson + Co representative for more information.

tonneson + co
Certified Public Accountants & Consultants
401 Edgewater Place, Suite 300, Wakefield, MA 01880-6208 t. 781.245.9999 f. 781.245.8731 www.tonneson.com