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Do You Have to Pay the AMT?

With tax filing time upon us, many people have questions about three important letters: A-M-T. It's smart to be aware of how the Alternative Minimum Tax could impact you this year and in the future. The Tennessee Society of CPAs provides some insights.

What Is the AMT?

The AMT first became effective in 1970 and was designed to prevent high-income taxpayers from using tax breaks to avoid paying any tax at all. It was created as a kind of parallel tax structure for those in the upper income levels, with its own set of rules that disallowed some popular deductions and carried its own rates. Unfortunately, in the original law, the rules on what income levels were affected were not indexed for inflation. That meant that, as inflation pushed salary levels higher over time, more and more middle class people were hit by a tax that was meant for the rich. Even though Congress often made annual inflation adjustments, or "patches," in an attempt to exempt middle-income taxpayers, many still ended up paying the AMT. In fact, while only 19,000 people paid the AMT in 1970, millions were paying it in recent years. Beginning in 2013, the American Taxpayer Relief Act permanently indexed the AMT tax thresholds for inflation, but the AMT's reach is still pretty broad.

Will It Affect You?

To determine whether you're subject to the AMT, it's necessary to calculate how much you would owe under the regular tax rules, and then see what you would pay following AMT rules by completing the IRS's Form 6251. You'll have to pay whichever is higher. You're more likely to be subject to the AMT if you live in a high tax city and state or if you have a large family because the AMT doesn't allow for some valuable deductions, such as those for state and local taxes and the personal exemption for children, that you can take under the regular tax structure. Other AMT triggers include using a home equity loan for something that's not a home improvement, exercising stock options during the year but not selling them, claiming high investment expenses, having numerous miscellaneous deductions and claiming business depreciation on your return.

Planning Ahead

There's not much you can do at this point if your tax situation in 2015 subjects you to the AMT, but there are steps you can take now to attempt to avoid it in the future. Your AMT status may change from year to year, so it may be a good idea to plan, if possible, to take itemized deductions in years when you won't be subject to the AMT so you can benefit from those deductions. If it's possible for you to spread out your earnings from year to year, that may help push you out of AMT eligibility. You might also be able to avoid it by lowering your income by maximizing contributions to tax-advantaged retirement accounts. Your CPA can work with you to target steps that minimize the chances you'll be subject to the AMT and that make sense for your overall financial picture.

Your CPA Can Help

Whether it's a tax matter or any other concern related to your financial situation, your CPA can provide expert advice that you can rely on. Turn to him or her with all your financial questions.

About Money Management

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy program. Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit *www.tscpa.com*. TSCPA is headquartered in Brentwood, Tenn.