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The Alternative Minimum Tax and You

The Alternative Minimum Tax (AMT) was formulated in 1969 and originally was aimed at the wealthiest taxpayers which came up to only about 19,000 in the entire country then. But the problem is that the AMT is not adjusted for inflation. This results in more and more taxpayers being levied with the tax as the years go by.

In essence, the Alternative Minimum Tax eliminates many deductions and credits, thereby increasing tax liabilities for individuals who would otherwise pay less. Because these deductions, exemptions and tax brackets are not changed to reflect inflation, today it applies to many taxpayers who consider themselves middle class and not among the wealthy. In fact, some experts predict that if the AMT law is not changed, some 50 million taxpayers will end up paying the AMT by 2015.

If you are wondering what the AMT is and how it's calculated, let me explain. The AMT is basically the difference between your normal tax liability and your minimum tax bill which you have to determine by filling out more IRS forms. The difference, if any, is the AMT which you must pay over and above your regular tax. So you can imagine if you earn a higher income, it increases the chances of being liable for the AMT.

Even if you were not liable for the AMT in previous years, you may be liable presently. For instance, if you had numerous debts canceled, exceptionally high income or capital gains in 2010, you may be liable for the AMT. Again, if your state or local taxes increased, because those taxes are not deductible, you could be liable for the AMT.

If you are a married couple filing a joint return, you could be liable for AMT if your gross income exceeds \$72,450. If you are single or a head of a household, you could owe AMT if your gross income is \$47,450 or more. And finally if you are married and file separate tax returns from your spouse, you may have to pay for AMT if your gross income is more than \$36,225.

To make more detailed calculations, go to the IRS website, www.irs.gov and look for instructions on Form 1040 and 1040A. You may also use the AMT Assistant for individuals, which is the electronic version of the AMT worksheet available from the same website. If you use the AMT Worksheet, you will either discover you do not need to pay the AMT or be directed to Form 6251, Alternative Minimum Tax—Individuals. Then you need to fill out that form to determine if you need to pay the AMT.