Facing Up to the AMT Threat

Complications Arise on 2012 Tax Returns

By Donna Laubscher, CPA
(480) 483-1170 ~ DonnaL@hhcpa.com

The "alternative minimum tax" (AMT) should not catch anybody by surprise anymore. This so-called stealth tax, which was initially aimed at only the highest echelon of individual taxpayers, continues to ensnare millions of taxpayers in both the middle and upper classes each year. If you are in the danger zone, you have probably come to expect the AMT threat at tax return time.

But this year the situation is even more daunting than before. In recent years, Congress has "patched" the AMT by slightly increasing the annual exemption amounts. However, as of this writing, Congress has not enacted a patch for the 2012 tax year, and it remains to be seen how this will play out post-election. At this point, taxpayers can only plan for the worst and hope for the best. Also, try to stay on top of any new tax developments.

Basic rules: The AMT is a separate tax system that runs parallel to the regular income tax system. After you have figured out your taxable income, under the regular rules, AMT liability is calculated by taking these four basic steps:

Step 1. Add certain tax preference items to your taxable income and make other technical adjustments required by law.

Step 2. Subtract the special exemption amount based on your filing status on your tax return.

Step 3. Apply the AMT rate to the net amount. The applicable rate is 26% on the first $175,000 of AMT income and 28% for amounts above the $175,000 threshold.

Step 4. Compare your AMT liability with your regular income tax liability. If the AMT is higher, you are required to pay the excess in addition to your regular tax liability. Otherwise, you simply pay the regular tax bill.

The list of preferences and technical adjustments mentioned in Step #1 is a lengthy one. Suffice it to say, taxpayers are required to add back certain itemized deductions and personal exemptions. For instance, taxpayers who report high state income tax deductions are especially vulnerable to the AMT.

Compounding this problem is Congress' failure to address the problem of the exemption amounts prior to the 2012 election. Absent any new legislation, the exemption amounts will revert to figures that were in place for 2001 before the series of increases began. See the chart for the progressions in exemptions over the last decade.

Furthermore, the benefit of these exemption amounts is reduced for certain high-income taxpayers. Each exemption is reduced by 25 cents for each dollar of AMT income over $150,000 for joint filers; $112,500 for single filers and heads of household; and $75,000 for married couples filing separately. These figures have not been adjusted in recent years.

This is an extremely complex area of the tax law. The AMT may apply in one tax year and not another. However, with expert advice, you may be able to minimize the impact of the AMT or even eliminate it. It is recommended that you seek assistance from your Henry & Horne, LLP tax professional.

Donna H. Laubscher, CPA, is a Partner at Henry & Horne, LLP. Her areas of expertise include individual taxation and accounting services for business entities. Contact Donna at (480) 483-1170 or DonnaL@hhcpa.com.

Henry & Horne, LLP
Certified Public Accountants

Tempe	Scottsdale	Casa Grande
2055 E. Warner Road	7098 E. Cochise	1115 E. Cottonwood
Suite 101	Suite 100	Suite 100
Tempe, AZ 85284	Scottsdale, AZ 85253	Casa Grande, AZ 85122
(480) 839-4900	(480) 483-1170	(520) 836-8201

www.henryandhorne.com