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Years of Inflation and the AMT Pose a Growing Tax Threat

Originally conceived to combat taxpayers in the higher-income brackets who utilized legal tax shelters and tax preferences to avoid paying income tax, the AMT can be tricky and hit you when least expected. The tax was supposed to inflict a “minimum” tax on those who were able to avoid the regular tax. However, years of inflation have pushed many middle-income taxpayers into the reach of the AMT. Although there is a long list of items that can trigger the AMT, for most individuals, the triggers include the following or a combination of the items listed below:

- Preference income from exercising stock options from an employer’s qualified plan, sometimes referred to as incentive stock options (ISOs);
- Having a large number of dependents;
- Having large itemized tax deductions;
- Having large miscellaneous itemized deductions;
- Large itemized deductions for state income or sales tax, real property tax and personal property tax;
- Large medical itemized tax deductions;
- Home equity debt interest deduction; and
- Interest income from private activity bonds.

In addition to those items listed above, watch out for transactions involving limited partnerships, depreciation and business tax credits only allowed against the regular tax. All of these can strongly impact your bottom line tax and raise a question of possible AMT.

Tax Tip: If you were subject to the AMT in the prior year and had a state tax refund in that year, part or all of your state income tax refund from that year may not be includable in the regular tax computation. To the extent you received no tax benefit from the state tax deduction because of the AMT, that portion of the refund is not includable in the subsequent year’s income.

As part of the American Taxpayer Relief Act of 2012, Congress has permanently made the amount of income that is exempt from AMT – referred to as the exemption amounts – subject to inflation adjustments in future years. Thus the amount for each subsequent year will be determined automatically and no longer require periodic Congressional action. In addition to the exemption amounts, ATRA also includes a provision for years after 2012 to inflation-adjust the amount of AMT taxable income that is taxed at the higher AMT rate of 28%.

Filing Status	2014	2015	2016	2017
Joint, SS	82,100	83,400	83,800	84,500
Single, HH	52,800	53,600	53,900	54,300
MS	41,050	41,700	41,900	42,250

Filing Status	Single & HH	Joint & SS	Married Separate
Threshold			
2014	117,300	156,500	78,250
2015	119,200	158,900	79,450
2016	119,700	159,700	79,850
2017	120,700	160,900	80,450
Full Phase Out			
2014	328,500	484,900	242,450
2015	333,600	492,500	246,250
2016	335,300	494,900	247,450
2017	337,900	498,900	249,450
Phase Out	25%	25%	25%

The exemption begins to phase out for higher income taxpayers when the AMT gross income exceeds the phase-out threshold and is fully phased out once the AMT gross income reaches the full phase out amount. When income is between the threshold and full phase-out amounts, the amount of the

exemption phase-out is 25% of the difference between the AMT gross income and threshold amount.

Example: Jack, a single taxpayer in 2016, has an AMT gross income of \$200,000. The phase-out threshold from the table below is \$119,700. The phase-out amount is \$20,075 $((200,000 - 119,700) \times 25\%)$. The exemption for a single individual in 2016 from the table above is \$53,900. Thus, our single taxpayer will only be able to deduct \$33,825 $(\$53,900 - \$20,075)$ as his 2016 AMT exemption.

AMT Tax Rate		26%	28%
Alternative Taxable Income (AT)			
	2014	\$182,500* or Less	Greater than \$182,500*
	2015	\$185,400* or Less	Greater than \$185,400*
	2016	\$186,300* or Less	Greater than \$186,300*
	2017	\$187,800* or Less	Greater than \$187,800*

Example: Using Jack in the previous example, his AMT gross income was \$200,000, and his allowable AMT exemption was determined to be \$33,825. Thus his AMT taxable income is \$166,175 $(\$200,000 - \$33,825)$. Since the entire taxable income falls into the 26% AMT tax rate his AMT tax is \$43,206 $(\$166,175 \times 26\%)$. Jack tax for the year will be the higher of his regular tax or the AMT.

If you have questions about how the AMT might impact your taxes please give this office a call

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