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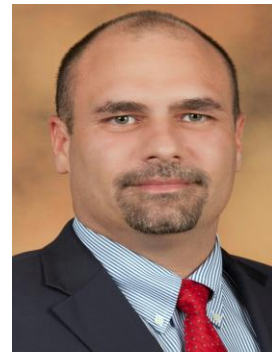

AN OVERVIEW OF THE ALTERNATIVE MINIMUM TAX

Many taxpayers are baffled by the effects of the Alternative Minimum Tax, commonly known as the AMT, in their taxes. In a nutshell, the AMT generally boosts the tax bill because it works as if it were an alternative system when the taxpayer's income is significant yet certain deductions reduce taxable income leading to a lower tax bill but for the AMT. The underlying rationale in the original AMT was based on ascertaining that wealthy taxpayers, who used tax loopholes to reduce their tax bills, did not escape taxation or a reasonable amount of taxation. Today, however, many middle class families get hit with the AMT because, for 2017, you could be subject to the AMT if your taxable income exceeds $84,500 and you are married filing jointly. Lower amounts apply for singles and heads of household.

The AMT's calculation is relatively simple; once a taxpayer has calculated the regular taxable income, then it must add back certain deductions, known as tax preference items. The result of the add backs, net of a special exemption, and the net income subject to tax is the income subject to the alternative tax.

Many of the tax breaks not allowed under the AMT system do affect predominantly wealthy individuals or businesses with complicated tax circumstances. These include incentive stock options, intangible drilling costs, tax-exempt interest from certain private activity bonds, and depletion and accelerated depreciation on certain leased personal or real property.

Common tax breaks disallowed

The AMT rejects or reduces many common tax breaks used every year by individual taxpayers to lower their IRS bills. For instance, under the AMT, you cannot deduct state and local taxes. This is a major blow to many filers, because most states collect income taxes and all jurisdictions have some type of levy that generally can be counted against a federal tax bill. Other tax breaks disallowed include:

- Miscellaneous itemized deductions: These deductions must exceed 2 percent of your adjusted gross income under the regular tax system, but are disallowed under the AMT.

- Personal exemptions may be disqualified.

- Mortgage interest: Although the interest related to your main and second home is still AMT-deductible, home equity loan may not interest as it can only be deducted for AMT if the money was used solely to pay for home improvements.

- Real estate property taxes also are disallowed as deductions under the AMT.

- Some tax credits that reduce your regular tax liability do not reduce what you owe under the AMT. Once you add back these disallowed credits and run the numbers, you might be subject to a bigger IRS bill if your taxable income exceeds the annual AMT exemption amount for your filing status.

If you find you must pay the AMT, the extra money you owe, along with the added paperwork hassle, is never welcome. But dealing with it now is better than the alternative: letting the IRS discover that you should have paid it. When Uncle Sam comes asking for back taxes, he wants interest and penalties, too.

Keep in mind that we are here to help; thus, should you have questions or comments about this article, please contact JP Navarro via e-mail at jpnavarro@nacpr.net