

What Is the Alternative Minimum Tax (AMT)?

As an individual taxpayer, you are subject to two tax systems, the regular income tax and the alternative minimum tax (AMT). You are liable for the larger, and only the larger, of the two taxes. The original purpose of the AMT was to ensure that taxpayers who were allowed special favorable treatment on certain tax items pay at least a minimum amount of tax on their economic income. As personal incomes tend to rise each year, more taxpayers have become subject to the AMT. This is primarily due to not indexing the AMT exemption for inflation (which reduces your exposure to the AMT) while your regular tax deductions and exemptions are indexed (increased) for inflation.

NOTE: It is estimated that by 2010, 30 million people will likely be impacted by the AMT if the AMT exemption is not increased!

The AMT tax computation starts with your regular taxable income that is then increased for certain tax benefits (in the regular tax liability computation) called preferences and adjustments. These include certain itemized deductions, the standard deduction, personal exemptions, certain tax-exempt interest, and income related to exercising certain stock options. You then reduce the amount by the AMT exemption, which for some high-income taxpayers is phased-out. The AMT is then computed and, as previously stated, you pay the larger of the regular tax or the AMT.