

Navigating the AMT

This playbook provides an overview of the Alternative Minimum Tax and offers guidance on who it impacts and how to manage its intricacies effectively.

Step 1: **Learn Basics**

Understand the basic concept of the Alternative Minimum Tax (AMT), which is a parallel tax system to the regular federal income tax, designed to ensure that certain taxpayers pay at least a minimum amount of tax.

Step 2: **Identify Taxpayers**

Determine which taxpayers are affected by the AMT. Typically, this includes individuals with high income and large deductions or those who exercise incentive stock options.

Step 3: **Calculate AMTI**

Compute the Alternative Minimum Taxable Income (AMTI) by making certain adjustments and adding back preference items to the regular taxable income.

Step 4: **Apply Exemption**

Subtract the AMT exemption amount from the AMTI. Note that this exemption phases out at higher income levels.

Step 5: **Determine AMT**

Apply the AMT tax rates to the amount remaining after the exemption to find out the tentative minimum tax.

Step 6: **Compare Taxes**

Compare the tentative minimum tax to the regular tax amount. If the AMT is higher, the taxpayer owes the additional amount.

General Notes

AMT Rates

The AMT has different tax rates compared to the regular tax system, usually 26% or 28%.

AMT Credits

Taxpayers may be eligible for credits against the AMT in future years, which can help offset AMT liability.

Planning Tips

Consider tax planning strategies throughout the year to minimize the impact of AMT, such as timing certain income or deductions.