BUSINESS

# New rules for Alternative Minimum Tax

Phillip Goldstein

Unfortunately, the Tax Cuts and Jobs Act retains the individual alternative minimum tax. But there's a silver lining: The new rules reduce the odds that you'll owe the AMT for 2018 through 2025. Even if you're still in the AMT zone, you'll probably owe less than you did under the old rules.

Important note: The prior law version of the AMT still applies for your 2017 income tax return, which is due on April 17, 2018.

## The basics

Think of the AMT as a separate tax system that's similar to the regular federal income tax system. The difference is that the AMT system taxes certain types of income that are tax-free under the regular tax system and disallows some deductions and credits.

The maximum AMT rate is 28 percent. By comparison, the maximum regular tax rate for individuals in 2017 was 39.6 percent. The maximum regular tax rate for individuals is reduced to 37 percent for 2018 through 2025 thanks to the new law. For 2017, the maximum AMT rate kicks in when AMT income exceeds $187,800 for married joint-filing couples and $93,900 for others. For 2018, the maximum 28 percent AMT rate starts when AMT income exceeds $191,500 for married joint-filing couples and $95,750 for others.

## Inflation-adjusted exemption

Under the AMT rules, you're allowed a relatively large inflation-adjusted AMT exemption, which is deducted when calculating your AMT income. The new law significantly increases the exemption for 2018 through 2025.

The exemption is phased out above the threshold, which also increases those thresholds for 2018 through 2025. If your AMT bill for the year exceeds your regular tax bill, you must pay the higher AMT amount. Originally, the AMT was enacted to ensure that very wealthy people didn't avoid paying tax by taking advantage of tax breaks. Unfortunately, the AMT also hits some unintended targets. The new rules are better aligned with Congress's original intent.

## Who gets hit

Under prior law, many high-income taxpayers weren't affected by the AMT. That's because, after numerous legislative changes, many of their tax breaks were already cut back or eliminated under the regular income tax rules.

If your income exceeds certain levels, you run into phaseout rules that may eliminate other tax breaks. As a result, higher-income taxpayers had little or nothing left to lose by the time they got to the AMT calculation, while many upper-middle-income folks still had plenty left to lose. Also, the highest earners were in the 39.6 percent federal tax bracket, which made it less likely that the AMT — with its maximum 28 percent rate — would hit them.

In addition, the AMT exemption is phased out as income goes up. Under prior law, this exemption had little or no impact on individuals in the top bracket, because the exemption was completely phased out. But the phaseout made upper-middle-income taxpayers much more likely to owe AMT.

Under the new law, upper-middle-income taxpayers are somewhat less likely to owe the AMT, and if they do, their AMT liabilities are likely to be lower.

What factors might put you at risk for AMT?

- Substantial income
- Large itemized deductions for state and local income and property taxes
- Multiple personal and dependent exemption deductions
- Exercise of "in-the-money" incentive stock options
- Significant miscellaneous itemized deductions
- Interest from "private activity bonds"
- Significant depreciation writeoffs.

*Phillip Goldstein is managing partner of Goldstein Lieberman & Company LLC, a full-service certified public accounting and business advisory firm that serves closely held businesses and their owners in New York and New Jersey. For more information, contact Goldstein at 800-839-5767 or philg@glcpas.com, or visit www.glcpas.com.*