

State of Alternative Minimum Tax (AMT) in 2010

Even though much of the 2010 talk regarding tax law revolves around the expiring tax rate cuts for dividends, capital gains, and ordinary income, these expirations will not affect taxpayers until 2011. More pressing for 2010 is the state of the expired Alternative Minimum Tax (AMT) "Patch".



A few years ago, the Alternative Minimum Tax exemption amount was indexed for inflation to be consistent with annual changes in regular tax rates. However, for budget balancing reasons, the change was not made permanent and instead has been extended multiple times, once as late as December of that year, leaving millions of Americans with uncertainty in calculating and planning for their tax liability.

What's Different in 2010?

Once again for 2010, we are in a year of uncertainty, as an extension of the AMT exemption increase, the "AMT Patch" as it is regularly referred, has not been passed for 2010. To compound the complexity this year, the House of Representatives announced in late September that it would not take action on the AMT patch until after the national election. This means that the fate of the AMT patch likely lies with a lame duck congress.

In 2009, 4.5 million taxpayers were subject to AMT. If the AMT Patch is not passed, the Congressional Budget Office predicts that more than 27 million, or 1 of every 6 American taxpayers, will be subject to AMT, with those 27 million paying on average an additional \$3,900 in federal income tax.

Tax Comparison

Assumptions - Married Filing Joint Return

- \$ 112,500 adjusted gross income
- \$ 5,500 real estate tax deduction
- \$ 24,500 total itemized deductions

	<u>Current Law</u>	<u>AMT "Patch"</u>
AMT exemption	\$ 45,000	\$ 70,950
Regular tax	8,860	8,860
AMT	<u>4,000</u>	<u>0</u>
Total income tax	<u>\$ 12,860</u>	<u>\$ 8,860</u>

Background of AMT

AMT is an alternate tax system with its own set of rates and rules for deductions which are usually less generous than the regular tax rules. Common traditional deductions that are not allowed for AMT include real estate taxes, state income taxes, and deductible miscellaneous itemized deductions. The primary qualifier that limits exposure to AMT is an exemption amount. In 2009, the exemption was the first \$70,950 of AMT income for a married couple. For 2010, current law reduces the exemption to \$45,000 unless the AMT patch is passed. For single individuals the exemption would decrease from \$46,700 to \$33,750.

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What to Do Before Year-end?

There is bipartisan support for an extension of the "AMT Patch", but like the expiring tax cuts, there will not be any congressional action until after the November elections. We will keep you informed of changes in the tax law, but be prepared to have AMT add as much as \$7,000 of additional tax to your 2010 tax bill if Congress fails to act.

If you are subject to Alternative Minimum Tax in 2010, you may want to consider some non-traditional tax planning techniques:

- Possibly do not pay all of your 2010 real estate taxes before the year-end
- Delay the timing of your 4th quarter state estimated tax payments into January 2010



Due to the uncertainty of the AMT patch, there are no hard and fast rules regarding 2010 tax planning. Our recommendations are therefore to "stay tuned" after the fall elections and not to pay real estate taxes or your final 2010 state estimated tax payment without checking with us first.

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