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AMT Patch Nicely Embroidered

Now that the so-called “[Tax Deal](#)” has passed, the biggest sea change may be the estate tax. On the income tax side, the [Alternative Minimum Tax](#) (AMT) impact may be more important for many taxpayers than the 15% capital gain rate or the top 35% vs. 39.6% rate. See [Patching The AMT Means Less Anarchy](#). I say that because the AMT is arguably the most insidious and counterintuitive tax there is. Even if you’re good with numbers, it’s hard to see the AMT coming.

You compute regular tax and AMT, and if the AMT is higher, you must pay it. Given the ingredients that go into the AMT, you can’t eyeball it. In fact, you really must compute your tax to tell. Even IRS Commissioner [Doug Shulman](#) practically pleaded with Congress to fix it on a timely basis.

In overly simplistic terms, calculating your AMT liability requires that the regular tax be computed. The regular tax is essentially a taxpayer’s normal tax liability determined without regard to the AMT provisions and reduced by certain miscellaneous credits. Next, you must determine the amount of Alternative Minimum Taxable Income (“AMTI”) by adding back to gross income certain tax preference items. Finally, the AMTI is applied against its own set of rates, and your AMT is the amount that the taxes imposed under these alternative rates exceed your regular tax.

The AMT exemption amounts for 2010 are:

- **Married individuals filing jointly and surviving spouses:** \$72,450, less 25% of AMTI exceeding \$150,000 (zero exemption when AMTI is \$439,800);
- **Unmarried individuals:** \$47,450, less 25% of AMTI exceeding \$112,500 (zero exemption when AMTI is \$302,300) (different amount applies for a child subject to the kiddie tax); and
- **Married individuals filing separately:** \$36,225, less 25% of AMTI exceeding \$75,000 (zero exemption when AMTI is \$219,900). But AMTI is increased by the lesser of \$36,225 or 25% of the excess of AMTI (without the exemption reduction) over \$219,900.

AMT exemption amounts for 2011 will be:

- **Married individuals filing jointly and surviving spouses:** \$74,450, less 25% of AMTI exceeding \$150,000 (zero exemption when AMTI is \$447,800);
- **Unmarried individuals:** \$48,450, less 25% of AMTI exceeding \$112,500 (zero exemption when AMTI is \$306,300) (different amount applies for a child subject to the kiddie tax); and
- **Married individuals filing separately:** \$37,225, less 25% of AMTI exceeding \$75,000 (zero exemption when AMTI is \$223,900). But AMTI is increased by the lesser of \$37,225 or 25% of the excess of AMTI (without the exemption reduction) over \$223,900.

Without the patch, post-2009 AMT exemption amounts would have plummeted to their 2001 levels. In other words, the AMT would have suffered the same fate as the estate tax boomerang, which had been scheduled to spring back to life in 2011. For 2010, the AMT exemption would have sprung back to \$45,000 for married individuals filing jointly and surviving spouses, \$33,750 for unmarried individuals; and \$22,500 for married individuals filing separately.

Another result of the patch can cut down an AMT liability even beyond these exemption figures. For 2010 and 2011, many nonrefundable

personal credits will be allowed against the AMT. Without the patch, they could not have been used to offset AMT.

For more, see:

[Patching The AMT Means Less Anarchy](#)

[The Bush Tax Cuts—Better By Another Name?](#)

[Alternative Minimum Tax \(AMT\) Assistant For Individuals](#)

[The Individual Alternative Minimum Tax](#)

[The Alternative Minimum Tax](#)

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