<u>Best Tax Practices – Alternative Minimum Tax (AMT)</u>

"A tax by any other name is still a tax"

The U.S. Congress originally created the Alternative Minimum Tax (AMT) in 1982 because of (only) 155 "high-income" earners who had, in previous years, reduced their tax liability to zero - they paid no income tax on their "high income." Consequently, to ensure that those who would be considered – as determined by Congress and the IRS as "high-income" earners paid at least ***<u>some</u>*** income tax, Congress created the AMT. When the AMT was first established, the income threshold that would trigger the AMT was significantly higher than the current threshold; these thresholds have been lowered over the years since its inception. Currently, it is ***<u>possible</u>*** that some with only approximately $40,000 of adjusted gross income – depending on various points of criteria, could be considered to be ***high-income*** earners and see the AMT imposed on their tax return.

When one prepares their tax return, they may have Adjustments, Deductions, Expenses, Exemptions and Credits that are allowed which could lower their tax liability. AMT is about limiting these items, if it is determined that not enough tax would otherwise be paid for the level of income shown on the return.

> Think of going grocery shopping with a fist full of coupons. You have a couple of coupons that have "double value" as well as all of your other coupons that have "single value." The single value coupons are for a mix and variety of items. One of your double value coupons is for dry pinto beans and the other double value coupon is for American cheese. In your full grocery cart are things for which you have no coupons, as well as all of the items for which you have single value coupons and you have your dry pinto beans and the American cheese for which you are planning on using your double value coupons.
>
> When you get to the checkout lane, your groceries are rung up and you are presented with a total. Then, you hand the grocery clerk your fist full of coupons and they begin to apply those coupons, reducing your grocery total. However, when they get to the double value coupons, the grocery store will not double the value of savings on your dry pinto beans and your American cheese because the grocery store has a limit on the total dollar amount of coupons you are allowed to use and your coupons have exceeded that limit. Consequently, your final grocery bill will be higher as you are not able to use all of your coupons at their full value.

If the IRS (as well as states that have enacted their own AMT's) determines that too many deductions have been taken - in comparison to what is one's Adjusted Gross Income (AGI), tax is simply **<u>ADDED</u>** back into your return to offset what they have determined are your *excessive deductions*.

- *In essence, the taxing authority has decided that you are to pay a minimum amount of tax for the income reflected and you cannot lower that tax by adding more write-offs for if you were to add additional deductions that are not "AMT proof," the AMT will simply increase – dollar for dollar, to offset the additional deductions so as to keep the tax at a "minimum" point.*

Welcome to the Alternative Minimum Tax. You have, on your tax return, items you presented – coupons, in the form of Deductions for which you have been limited in their use as you have hit a ratio of income to write-offs that have simply tipped the scales too far out of the tolerances allowed by the taxing authority and therefore some of your coupons have lost their full-face value and cannot be used in their entirety.

The Alternative Minimum Tax (AMT) by any other name is still a tax – ***<u>a flat tax</u>***.