

Tennessee Society of CPAs
201 Powell Place
Brentwood, TN 37027
1-800/762-0272
Visit our Web site at
www.tscpa.com

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CONTACT:
Lindsey Deweese
Public Relations Coordinator
ldeweese@tscpa.com

UNDERSTANDING THE ABCS OF THE AMT

BRENTWOOD, Tenn. – Are you aware of all the tax laws that affect you? Many people are often surprised to find themselves subject to the AMT, which is short for the alternative minimum tax. Although this tax was originally intended for a narrow group of taxpayers, it is now estimated to have an impact on millions of people. The Tennessee Society of CPAs explains what you need to know about it.

A SEPARATE TAX

While the tax was meant for the wealthy, it now entangles many people who would consider themselves middle class. The AMT really functions as a separate tax system. It applies not only to individuals but also to corporations, estates and trusts. It was first created to ensure that those with high incomes couldn't sidestep paying taxes altogether by using certain deductions and adjustments.

CHECKING IT TWICE

When you figure out your tax liability, you normally add up your income, then subtract the adjustments, deductions and exemptions that apply to you. What is left is your taxable income. You then calculate your tax on this taxable income. When you calculate the AMT, you are effectively adding back some of the tax breaks allowed for regular tax purposes, then figuring your taxes using special AMT tax rates. If the amount of tax figured using the AMT rates (called the tentative minimum tax) is higher than your regular tax amount, you must pay AMT equal to the difference between the two amounts in addition to your regular tax amount.

ITEMS THAT MAY TRIGGER THE AMT

What deductions or adjustments might you have to add back? They include but are not limited to itemized deductions for state and local taxes or property taxes, certain interest expense and most miscellaneous deductions, as well as tax-exempt interest from private activity bonds. That's only a partial list, however, so be sure to consult a CPA for more information.

INCOME EXEMPTIONS

The AMT only applies if your alternative minimum taxable income (which is your regular tax adjusted gross income after adding or subtracting any AMT adjustment or preference items) is above the AMT exemption amount for your filing status. For the 2009 tax year, the amounts are \$46,700 for individuals, \$70,950 for married people filing jointly and \$35,745 for married people filing separately. You may not automatically pay the AMT if your alternative minimum taxable income is higher than these amounts, but you do escape AMT if your AMT income comes in below those levels.

TRYING TO AVOID AMT

If you believe you may be subject to the AMT, you should review your income and expenses periodically to determine whether or not to take actions to avoid it, such as postponing or accelerating income, deferring payment of expenses or prepaying state and local income taxes or property taxes. However, remember that any such step should be taken as part of a prudent overall tax plan. There may be unintended consequences to any of these actions, so be sure to discuss them with a CPA before you finalize any plans.

THE AMT ASSISTANT

The Internal Revenue Service does offer information to taxpayers to get them started on understanding the AMT and whether they are subject to it. The Service's AMT Assistant for Individuals can be found on the IRS site at *www.irs.gov*.

About Money Management

Money Management is a weekly column on personal finance prepared and distributed by the Tennessee Society of Certified Public Accountants (TSCPA) as a part of its financial literacy initiative.

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