



American Institute of CPAs' Fiscal Cliff Series:

Alternative Minimum Tax

DESCRIPTION

The Alternative Minimum Tax (AMT) is a parallel way for an individual to calculate her or his federal income tax. If the amount a taxpayer would pay using the standard rules falls below a specified level, she or he is required to apply the alternative AMT rules to calculate their taxes for that year.

The AMT was originally enacted in a somewhat different form in 1969. It was revised to its current form in 1982 in the Tax Equity and Fiscal Responsibility Act and revised again in the Omnibus Budget Reconciliation Acts of 1990 and 1993.

The AMT currently applies to income over \$48,450 for individuals and \$74,450 for couples. However, since 1990, Congress and the White House have enacted legislation (usually, but not always, annually) to index the exemption to inflation. This indexing (commonly referred to as a “patch”) has prevented the income levels subject to the AMT from reverting back to the original, and much lower, amounts. This has protected large numbers of additional taxpayers from being subject to the AMT.

Taxpayers who fall under the AMT are excluded from using some deductions, such as the:

- Standard deduction
- Deduction for state and local income taxes
- Deduction for real estate and personal property taxes and
- Deduction for miscellaneous itemized deductions; for example, employee business expenses that are not reimbursed by employers

The AMT patch expired on December 31, 2011. As a result, many taxpayers – those who are self-employed, in particular – have been paying higher estimated tax payments based on the lower AMT exemption amounts since January 1, 2012.

If it is patched by January 1, 2013, the exemption likely will either remain the same as in 2011 or will be further indexed for inflation.

WHAT WILL HAPPEN IF WE GO OVER THE FISCAL CLIFF?

Congress has not yet agreed to a patch for calendar year 2012. If this does not happen, the income levels for those subject to the AMT will fall from \$48,450 to \$33,750 for individuals, and from \$74,450 to \$45,000 for couples. This will increase federal revenues in 2013 by \$40 billion.*

WHO WILL BE AFFECTED IF WE GO OVER THE FISCAL CLIFF?

Failure to patch the AMT could affect an extra 27 million households, according to the IRS. It will increase the average tax liability of middle- to upper-middle-income taxpayers, and is likely to affect taxpayers with large families and those who reside in states with high income taxes.

CAN THIS BE DEALT WITH AFTER JANUARY 1, 2013?

Yes. Changes can be made retroactively, that is, after January 1. Until then, many taxpayers will continue to pay higher estimated tax payments. If the AMT is patched after a taxpayer files her or his 2012 tax return, she or he most likely would be able to file an amended return. However, the IRS has indicated that if the AMT is not dealt with by the end of December, the beginning of return filing season could possibly be delayed until late March for up to 60 million taxpayers.

AICPA COMMENT

“The AICPA has a long-standing position of supporting repeal of the AMT. However, we recognize there is a significant revenue cost associated with this simplification reform. Therefore, we have strongly urged Congress, at a minimum, to permanently index the AMT for inflation. That would eliminate a significant amount of uncertainty in tax planning and allow a more efficient administration of the tax system.”

~~Edward S. Karl, CPA, Vice President – Taxation, AICPA

AICPA RESOURCES

“Navigating the Fiscal Cliff? AICPA Can Help”

<http://www.aicpa.org/InterestAreas/Tax/Resources/Pages/tax-fiscal-cliff.aspx>

*Source for revenue estimate: Tax Policy Center, “Toppling Off the Fiscal Cliff: Whose Taxes Rise and How Much?” October 1, 2012.

<http://www.taxpolicycenter.org/UploadedPDF/412666-toppling-off-the-fiscal-cliff.pdf>

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