

Alternative Minimum Tax

A taxpayer must pay either the regular income tax or the AMT, whichever is higher. The AMT tax system is parallel to the regular tax, but it treats some items of income and deduction differently.

The established exemption amounts for 2018 are \$70,300 for unmarried individuals and individuals claiming the head of household status, \$109,400 for married individuals filing jointly and surviving spouses, and \$54,700 for married individuals filing separately. These exemption amounts are significantly higher than in prior years (in 2017 the amounts were \$54,300 for unmarried individuals and individuals claiming head of household status, \$84,500 for married individuals filing jointly and surviving spouses, and \$42,250 for married individuals filing separately). Further, with the introduction of the SALT deduction cap and end of miscellaneous itemized deduction for 2018 through 2025, the likelihood that an individual taxpayer will be subject to AMT is low.

With increased AMT exemptions for individuals, such taxpayers are likely to use more of the R&D credits passing through to them from their businesses.

The exemption for estates and trusts was unchanged by tax reform at \$24,600.

AMT paid on “timing” preferences and adjustments (such as accelerated depreciation) for prior years is allowed as a credit against a later year’s regular income tax to the extent it exceeds the later year’s tentative AMT. Therefore, this AMT credit cannot reduce the regular income tax below the AMT for that later year.

Example: T’s 2018 AMT attributable to timing preferences was \$80,000. T’s 2019 regular tax is \$100,000, and T’s tentative AMT is \$70,000. T may reduce the regular tax by \$30,000. Generally, T’s remaining AMT credit of \$50,000 (\$80,000 less \$30,000) may be carried forward indefinitely. No carryback is permitted.

A full discussion of the AMT is beyond the scope of this letter. AMT considerations are exceedingly complex and require careful planning. Please consult your advisor prior to year-end to discuss how the AMT might affect you.