BusinessManagement DAILY

JUNE 28, 2018

Face up to the AMT in ’18

Although the new Tax Cuts and Jobs Act (TCJA) reduces exposure to the alternative minimum tax (AMT) for millions of taxpayers for 2018-2025, it doesn’t provide complete protection.

Strategy: Make a quick midyear analysis. If you expect to avoid the AMT in 2018, you can continue merrily on your way.

Conversely, if you figure you’ll be hit by the AMT, make moves between now and year-end to minimize the damage.

Here’s the whole story: The AMT calculation runs parallel to your regular income tax calculation at tax return time. There are five basic steps for computing AMT liability.

1. Figure out your taxable income for regular tax purposes.

2. Add designated “tax preference items” to this figure and make the other adjustments required by law *(see box below)*. If you need help, consult with your tax pro.

3. Subtract a special exemption amount based on your filing status. This exemption amount is reduced for high-income taxpayers.

4. Apply the AMT rate to the net amount. The AMT rate is 26% for the first $191,500 of AMT income; 28% for AMT income above that. (The threshold for the 28% rate is $95,750 if you use “married filing separately” status.)

5. Compare the AMT result to your regular income tax and pay the higher tax liability.

Here’s where the TCJA comes to the rescue. In prior years, increases in the AMT exemptions amounts were minimal, but the new law includes a significantly bigger boost *(see chart below)*. In addition, exemption amounts were previously reduced by 25 cents on the dollar for AMT income above an inflation-adjusted amount of $112,500 on a single return and $150,000 on a joint return, which translated to $120,700 and $160,900 for 2017. The TCJA raises these thresholds to $500,000 for single filers and $1 million for joint filers—a whopping increase.

The AMT changes are effective for 2018 through 2025. Barring any further legislation, in 2026 things will revert back to the way they were before the new law.

4 ways to cut the AMT

Despite these changes, you may figure out that you are still in the danger zone for the AMT in 2018. In that case, here are four ways you might lower your tax bill.

1. Delay capital gains. If you expect to realize a large capital gain—say, from the sale of real estate or securities—it could significantly reduce your exemption amount. Postpone the sale until next year or arrange an

7600 Leesburg Pike, Suite 300, Falls Church, VA 22043-2004 (800) 543-2002

installment sale to spread out the tax over time. *Caveat:* Obviously, other economic factors besides taxes enter into these decisions.

2. Time income tax payments. Don't prepay state and local taxes to reduce your regular federal income tax bill. These tax payments are added back to your AMT calculation. Instead, prepay enough to bring down your regular tax liability to the amount of your AMT liability. Obtain advice from your tax pro about striking the proper balance.

3. Avoid "private activity" bonds. Generally, the income generated by most municipal bonds and muni bond funds is exempt from both regular income tax and the AMT. But if bonds are used to finance private activities—such as housing projects, hospitals or certain industrial parks—the income may be subject to the AMT. Check out the offering prospectus for potential investments—it will tell you if it's free from the AMT.

4. Stagger ISOs exercises. If you take advantage of tax-favored incentive stock options (ISOs), the "bargain element" (the difference between the option price and fair market value) is treated as income for AMT purposes but not for regular tax purposes. By staggering the exercise of ISOs over several years, you may be able to avoid an AMT hit.

Tip: If you sell shares in the same year you exercise an ISO, there is no AMT add back.

AMT exemptions over time

	2015	2016	2017	2018
Joint filers	$53,600	$53,900	$54,300	$70,300
Single filers	$83,400	$83,900	$84,500	$109,400
Marrieds filing separately	$41,700	$41,900	$42,250	$54,700

New law impact on AMT

The TCJA includes other changes affecting the AMT calculation.

Alert: The list of AMT adjustments and preferences still includes items such as private activity bond interest, the bargain element when ISOs are exercised, itemized deductions for state and local taxes, and standard deduction amounts.

Notably, you don't have to add back personal and dependent exemption deductions or miscellaneous itemized deductions subject to the 2%-of-AGI deduction threshold, because the TCJA eliminates these write-offs for 2018-2025. The new law also limits the itemized deduction for state and local taxes to $10,000 for 2018-2025. These changes will reduce the AMT risk for many taxpayers for 2018-2025.

7600 Leesburg Pike, Suite 300, Falls Church, VA 22043-2004 (800) 543-2002