

Reflecting on the AMT

Three NATP members speak out on this onerous tax

Thoughts on the Dreaded Alternative Minimum Tax

I've been preparing 1040's for 35 years now. During the first half of my career, I *never* prepared a return on which the client paid the dreaded Alternative Minimum Tax. Lately at least every fifth or sixth return is hit with this additional tax, and I check for AMT on probably every other 1040 long form.

My first brush with AMT was on the 1991 return of an "outside" insurance salesman with extensive employee business expenses. The client received a letter from Uncle Sam requesting that we complete the Form 6251, stating that he may be subject to the tax. I did and he was!

The next client who became a victim had excessive long-term capital gains and capital gain distributions. Even though these items are "supposedly" taxed separately at lower rates, the fact that they increased the client's Adjusted Gross Income also increased the Alternative Minimum Taxable Income such that the AMT exemption was substantially reduced.

Lately I find that more and more of my clients pay AMT because of where they live. I practice in New Jersey and also do returns for some New York residents. New Jersey has the highest property taxes in the nation, and is also high on the list in terms of state income taxes and sales and use taxes. New York is high on all lists. Plus, home prices are substantially higher than elsewhere in the country. As a result, salaries in the area are, to a degree, arbitrarily increased to compensate for these factors. Since taxes reported on Schedule A are not deductible in calculating the dreaded AMT, a disproportionately high percentage of New Jersey and New York taxpayers fall victim, especially if they have a couple of kids.

This tax hits taxpayers with incomes of between \$150,000 and \$250,000 in income. These figures are

not considered high for individuals living in the Northeast. A taxpayer in Kansas earning \$150,000 to \$250,000 is on easy street compared to a New Jersey or New York resident who, while not exactly struggling, is certainly not wealthy. My millionaire clients, or even my half-millionaire clients, do not pay AMT

Unfortunately, Congress has been using the increasing income generated by an AMT unadjusted for inflation to pass tax cuts, misleading the middle and upper-middle class into thinking that they would be saving money, while in reality these taxpayers end up paying more via the "back-door" AMT tax. It appears that the AMT has grown such so that it is now impossible to completely do away with it without correspondingly increasing "regular" taxes.

The very existence of an Alternative Minimum Tax is an excellent example of the laziness of Congress. When the issue arose that excessive loopholes were causing some high-income taxpayers to avoid paying any federal income tax, instead of closing the loopholes and fixing the Tax Code, Congress provided a "quick response" with the Minimum Tax.

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To me, the obvious solution is to abolish the Alternative Minimum Tax altogether. To do this, the regular tax needs to be properly "fixed." However, this would require too much work on the part of a Congress that spends most of its time and energy



running for re-election than it actually does working on the things it was elected to do!

The President was on the right track when he established a body to review the Tax Code and make suggestions for its overhaul. Unfortunately, he dropped the ball completely by ignoring the findings and forgetting all about true tax reform when other "more important" matters occupied his attention.

Recent tax cuts have also created a growing number of American "non-taxpayers," a.k.a. lower income individuals and families who pay absolutely no federal income taxes, or who actually "make money" on their 1040 due to refundable credits. Perhaps we should have a true "Minimum Tax" that requires each and every non-dependent American to pay at least \$100 in federal income taxes!

In closing, I am reminded of a humorous anecdote told by a tax update instructor who has since gone on to his final audit. This story points out the misnaming of this dreaded tax, which should more appropriately be called the Mandatory Maximum Tax. The instructor had a client who, when asked by the instructor why he continued to use his services each year, said "It's because you always make sure I pay the Minimum Tax. Nobody else I ever used did that!" ♦