Alternative Minimum Tax

**8537. What is the alternative minimum tax and how is it calculated?**

In addition to regular income tax, the *alternative minimum tax* (AMT) is an additional tax that certain taxpayers must pay. In theory, the purpose of AMT is prevent high income taxpayers from taking advantage of tax benefits (such as exclusions, deductions and credits) to substantially reduce or even eliminate their tax liability. However, in reality, due to complex rules, many relatively low income taxpayers are often subject to AMT.

The AMT is calculated as follows:

(1) compute alternative minimum taxable income (AMTI, see Q 8538);

(2) subtract the exemption amount from AMTI; and

(3) multiply the remaining AMTI (step (2), above), by the applicable AMT rate.

For purposes of sheltering lower income taxpayers from being subject to AMT, the Code allows exemption amounts. Only AMTI in excess of the exemption amount is subject to AMT. The 2014 exemption amounts are as follows:[[1]](#endnote-1)

|  |  |
| --- | --- |
| Filing Status | AMT Exemption |
| Married filing jointly or qualifying widow(er) | $82,100 |
| Single or Head of Household | $52,800 |
| Married filing separately | $41,050 |

There are two AMT rates. For 2014, those rates are as follows:

|  |  |  |
| --- | --- | --- |
| AMT Rates | 26% | 28% |
| Married filing separately | Up to $91,250 | Over $91,250 |
| All other filing status | Up to $182,500 | Over $182,500 |

For purposes of computing AMT, the taxpayer is allowed to take the foreign tax credit.[[2]](#endnote-2) After computing AMT, it is compared with the taxpayer’s regular income tax. If the regular tax is lower than AMT, the difference is AMT owing in addition to the tax. Stated differently, the taxpayer must pay the higher of AMT or the regular tax.[[3]](#endnote-3)

*Example*. For 2014, Asher’s regular income tax liability is $75,000 but his AMT tax liability is $92,000, or $17,000 more than his regular income tax liability. Asher’s liability is $92,000 ($75,000 regular income tax and $17,000 AMT).

**8537.02. Are personal tax credits allowed as an offset against AMT liability?**

Several refundable tax credits such as the earned income credit and the refundable portion of the child tax credit are allowed as an offset against AMT liability. Other personal nonrefundable credits also allowed as an offset include:

* Adoption tax credit
* Child and dependent care credit
* Nonrefundable portion of the child tax credit
* Certain learning credits
* Tax credit for IRAs and retirement plans
* Energy saving credits[[4]](#endnote-4)

1. IRC Sec. 55(d)(1), Rev. Proc. 2013-35, IRB 2013-47 537. [↑](#endnote-ref-1)
2. IRC Sec. 55(b)(1)(A). [↑](#endnote-ref-2)
3. IRC Sec. 55(a). [↑](#endnote-ref-3)
4. IRC Sec. 26(a)(2). [↑](#endnote-ref-4)