**8785. Are C corporations subject to the alternative minimum tax? How is the corporate alternative minimum tax calculated?**

A corporate taxpayer must calculate its liability under the regular tax and a tentative minimum tax, and then add to its regular tax the amount of tentative minimum tax as exceeds the regular tax. The amount added is the corporate alternative minimum tax (AMT).[[1]](#footnote-1)

To calculate its AMT, a corporation first calculates its “alternative minimum taxable income” (AMTI), as explained below.[[2]](#footnote-2) The corporation must then calculate its “adjusted current earnings” (ACE), also explained below. The corporation increases its AMTI by 75 percent of the amount by which ACE exceeds AMTI (or reduces its AMTI by 75 percent of the amount by which AMTI exceeds ACE).[[3]](#footnote-3) The tax itself is a flat 20 percent rate, applied to the corporation’s AMTI after it is adjusted based on ACE.[[4]](#footnote-4)

Each corporation receives a $40,000 exemption, similarly to the AMT exemption applicable to individuals (see Q 8540). The corporate exemption amount, however, is reduced by 25 percent of the amount by which AMTI exceeds $150,000 (phasing out completely at $310,000).[[5]](#footnote-5)

AMTI is regular taxable income determined with certain adjustments and increased by tax preferences.[[6]](#footnote-6) “Tax preferences” for corporations are the same as for other taxpayers. Adjustments to income include the following:

(1) property is generally depreciated under a less accelerated or a straight line method over a longer period, except that a longer period is not required for property placed in service after 1998;

(2) mining exploration and development costs are amortized over 10 years;

(3) a percentage of completion method is required for long-term contracts;

(4) net operating loss deductions are generally limited to 90 percent of AMTI (although some relief was available in 2001 and 2002);

(5) certified pollution control facilities are depreciated under the alternative depreciation system except those that are placed in service after 1998, which will use the straight line method; and

(6) the adjustment based on the corporation’s ACE.[[7]](#footnote-7)

To calculate ACE, a corporation begins with AMTI (determined without regard to ACE or the AMT net operating loss) and makes additional adjustments. These adjustments include adding certain amounts of income that are includable in earnings and profits but not in AMTI (including income on life insurance policies and receipt of key person insurance death proceeds). The amount of any such income added to AMTI is reduced by any deductions that would have been allowed in calculating AMTI had the item been included in gross income. The corporation is generally not allowed a deduction for ACE purposes if that deduction would not have been allowed for earnings and profits purposes, though a deduction is allowed for certain dividends received by a corporation. Generally, for property placed into service after 1989 but before 1994, the corporation must recalculate depreciation according to specified methods for ACE purposes. For ACE purposes, earnings and profits are adjusted further for certain purposes such as the treatment of intangible drilling costs, amortization of certain expenses, installment sales, and depletion.[[8]](#footnote-8)

A corporation subject to the AMT in one year may be allowed a minimum tax credit against regular tax liability in subsequent years. The credit is equal to the excess of the adjusted net minimum taxes imposed in prior years over the amount of minimum tax credits allowable in prior years.[[9]](#footnote-9) However, the amount of the credit cannot be greater than the excess of the corporation’s regular tax liability (reduced by certain credits such as certain business related credits and certain investment credits) over its tentative minimum tax.[[10]](#footnote-10)

1. . IRC Secs. 55-59. [↑](#footnote-ref-1)
2. . IRC Sec. 55(b)(2). [↑](#footnote-ref-2)
3. . IRC Sec. 56(g). [↑](#footnote-ref-3)
4. . IRC Sec. 55(b)(1)(B). [↑](#footnote-ref-4)
5. . IRC Secs. 55(d)(2), 55(d)(3). [↑](#footnote-ref-5)
6. . IRC Sec. 55(b)(2). [↑](#footnote-ref-6)
7. . IRC Secs. 56(a), 56(c), 56(d). [↑](#footnote-ref-7)
8. . IRC. Sec. 56(g); the tax is reported on Form 4626 [↑](#footnote-ref-8)
9. . IRC Sec. 53(b). [↑](#footnote-ref-9)
10. . IRC Sec. 53(c). [↑](#footnote-ref-10)