

FRANZEN & FRANZEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

January 22, 2013 – 2012 Taxpayer Relief Act: Alternative Minimum Tax

The alternative minimum tax (AMT) traps more middle income taxpayers every year. To partially alleviate this tax burden, Congress has been enacting annual “patches” to the AMT to increase exemption amounts. The American Taxpayer Relief Act of 2012 (2012 Taxpayer Relief Act) provides immediate relief for the AMT by permanently increasing the AMT exemption amounts retroactive to the 2012 tax year. Beginning in 2013, these base AMT exemption amounts will be adjusted annually for inflation.

For 2012, the exemption amounts are increased to \$78,750 for married couples filing jointly and surviving spouses, \$50,600 for single taxpayers and heads of households, and \$39,375 for married individuals filing separately.

The AMT exemption amounts are phased out at certain income levels. Because the phase-out calculation is affected by the amount of the exemption, an increase in the exemption also increases the maximum amount of alternative minimum taxable income (AMTI) a person can have before the exemption is phased out. Although the exemption amounts have increased, the threshold levels for calculating the phase-out remain unchanged in 2012. However, beginning in 2013 the threshold levels will also be inflation-adjusted.

For 2012, the AMT exemption amounts are completely phased out when AMTI reaches \$465,000 for married couples filing jointly and surviving spouses, \$314,900 for single taxpayers and heads of households, and \$232,500 for married individuals filing separately.

Additionally, the nonrefundable personal tax credits offset rule is made permanent after 2011 by the 2012 Taxpayer Relief Act. Therefore, these credits can be offset against regular tax and AMT liability, after reduction for any foreign tax credit.

With more certainty on the AMT horizon, tax planning strategies can be used to reduce its impact. As a general rule, taxpayers subject to the AMT should accelerate income into AMT years and postpone deductions into non-AMT years. Please contact our office to make an appointment at your earliest convenience should you wish to discuss this further.