

Abstract: The TCJA didn't eliminate the individual AMT. But the law did draw a silver lining around it. Revised rules now lessen the likelihood that many taxpayers will owe substantial taxes under the AMT for 2018 through 2025. This article explains why. A sidebar warns higher-income taxpayers that they are now back in the AMT spotlight.

TCJA draws a silver lining around the individual AMT

The Tax Cuts and Jobs Act (TCJA) didn't eliminate the individual alternative minimum tax (AMT). But the law did draw a silver lining around it. Revised rules now lessen the likelihood that many taxpayers will owe substantial taxes under the AMT for 2018 through 2025.

Parallel universe

Think of the AMT as a parallel universe to the regular federal income tax system. The difference: The AMT system taxes certain types of income that are tax-free under the regular tax system and disallows some regular tax deductions and credits.

The maximum AMT rate is 28%. By comparison, the maximum regular tax rate for individuals has been reduced to 37% for 2018 through 2025 thanks to the TCJA. For 2018, that 28% AMT rate starts when AMT income exceeds \$191,100 for married joint-filing couples and \$95,550 for others (as adjusted by Revenue Procedure 2018-18).

Exemption available

Under the AMT rules, you're allowed a relatively large inflation-adjusted AMT exemption. This amount is deducted when calculating your AMT income. The TCJA significantly increases the exemption for 2018 through 2025. The exemption is phased out when your AMT income surpasses the applicable threshold, but the TCJA greatly increases those thresholds for 2018 through 2025.

If your AMT bill for the year exceeds your regular tax bill, you must pay the higher AMT amount. Originally, the AMT was enacted to ensure that very wealthy people didn't avoid paying tax by taking advantage of "too many" tax breaks. Unfortunately, the AMT also hit some unintended targets. The new AMT rules are better aligned with Congress's original intent.

Under both old and new law, the exemption is reduced by 25% of the excess of AMT income over the applicable exemption amount. But under the TCJA, only those with high incomes will see their exemptions phased out, while others — particularly middle-income taxpayers — will benefit from full exemptions.

Need to plan

For many taxpayers, the AMT rules are less worrisome than they used to be. Let our firm assess your liability and help you plan accordingly.

Sidebar: High-income earners back in the AMT spotlight

Before the Tax Cuts and Jobs Act (TCJA), many high-income taxpayers weren't affected by the alternative minimum tax (AMT). That's because, after multiple legislative changes, many of their tax breaks were already cut back or eliminated under the regular income tax rules. So, there was no need to address the AMT.

If one's income exceeds certain levels, phaseout rules chip away or eliminate other tax breaks. As a result, higher-income taxpayers had little or nothing left to lose by the time they got to the AMT calculation, while many upper-middle-income folks still had plenty left to lose. Also, the highest earners were in the 39.6% regular federal income tax bracket under prior law, which made it less likely that the AMT — with its maximum 28% rate — would hit them.

In addition, the AMT exemption is phased out as income goes up. This amount is deducted in calculating AMT income. Under previous law, this exemption had little or no impact on individuals in the top bracket, because the exemption was completely phased out. But the exemption phaseout rule made upper-middle-income taxpayers more likely to owe AMT under previous law. Suffice it to say that, under the TCJA, high-income earners are back in the AMT spotlight. So, proper planning is essential.

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