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## The Alternative Minimum Tax (AMT)

In the past ten years there have been eight temporary legislative AMT-related "patches," designed to forestall a sudden dramatic increase in the number of individuals who are affected by the AMT. The latest two-year patch, included as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, expired on December 31 of 2011.

### What is the AMT?

The AMT is essentially a separate federal income tax system with its own tax rates, and its own set of rules governing the recognition and timing of income and expenses. If you're subject to the AMT, you have to calculate your taxes twice--once under the regular tax system and again under the AMT system. If your income tax liability under the AMT is greater than your liability under the regular tax system, the difference is reported as an additional tax on your federal income tax return. If you're subject to the AMT in one year, you may be entitled to a credit that can be applied against regular tax liability in future years.

### How do you know if you're subject to the AMT?

Part of the problem with the AMT is that, without doing some calculations, there's no easy way to determine whether or not you're subject to the tax. Key AMT "triggers" include the number of personal exemptions you claim, your miscellaneous itemized deductions, and your state and local tax deductions. So, for example, if you have a large family and live in a high-tax state, there's a good possibility you might have to contend with the AMT. IRS Form 1040 instructions include a worksheet that may help you determine whether you're subject to the AMT (an electronic version of this worksheet is also available on the IRS website), but you might need to complete IRS Form 6251 to know for sure.

### Common AMT adjustments

It's no easy task to calculate the AMT, in part because of the number and seemingly disparate nature of the adjustments that need to be made. Here are some of the more common AMT adjustments:

- **Standard deduction and personal exemptions:** The federal standard deduction, generally available under the regular tax system if you don't itemize deductions, is not allowed for purposes of calculating the AMT. Nor can you take a deduction for personal exemptions.
- **Itemized deductions:** Under the AMT calculation, no deduction is allowed for state and local taxes paid, or for certain miscellaneous itemized deductions. Your deduction for medical expenses may also be reduced, and you can only deduct qualifying residence interest (e.g., mortgage or home equity loan interest) to the extent the loan proceeds are used to purchase, construct, or improve a principal residence.
- **Exercise of incentive stock options (ISOs):** Under the regular tax system, tax is generally deferred until you sell the acquired stock. But for AMT purposes, when you exercise an ISO, income is generally recognized to the extent that the fair market value of the acquired shares exceeds the option price. This means that a significant ISO exercise in a year can trigger AMT liability. If ISOs are exercised and sold in the same year, however, no AMT adjustment is needed, since any income would be recognized for regular tax purposes as well.
- **Depreciation:** If you're depreciating assets (for example, if you're a sole proprietor and own an asset for business use), you'll have to calculate depreciation twice--once under regular income tax rules and once under AMT rules.

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Market Commentary... (Continued)

## AMT exemption amounts

While the AMT takes away personal exemptions and a number of deductions, it provides specific AMT exemptions. The amount of AMT exemption that you're entitled to depends on your filing status.

AMT Exemption Amounts by Filing Status	2011	2012
Married filing jointly	\$74,450.00	\$45,000.00
Single or head of household	\$48,450.00	\$33,750.00
Married filing separately	\$37,225.00	\$22,500.00

*Note: The 2012 figures assume no additional Congressional action.*

Your exemption amount, however, begins to phase-out once your taxable income exceeds a certain threshold (\$150,000 for married individuals filing jointly, \$112,500 for single individuals, and \$75,000 for married individuals filing separately).

## AMT rates

Under the AMT, the first \$175,000 of your taxable income is taxed at a rate of 26%. (If your filing status is married filing separately, the 26% rate applies to your first \$87,500 in taxable income.) Taxable income above this amount is taxed at a flat rate of 28%. The lower maximum tax rates that apply to long-term capital gain and qualifying dividends apply to the AMT calculation as well. So, even under AMT rules, a maximum rate of 15% (0% for individuals in the lower (two tax brackets) applies. However, long-term capital gain and qualifying dividends are included when you determine your taxable income under the AMT system. That means large capital gains and qualifying dividends can push you into the phase-out range for AMT exemptions, and can indirectly increase AMT exposure.

*Technical Note: In the context of AMT exemption amounts and tax rates, taxable income really refers to your alternative minimum taxable income (AMTI). Your AMTI is your regular taxable income increased or decreased by AMT preferences and adjustments.*

## Summing up

Owing AMT isn't the end of the world, but it can be a very unpleasant surprise. It also turns a number of traditional tax planning strategies (e.g., accelerating deductions) on their heads, so it's a good idea to factor in the AMT before the end of the year, while there's still time to plan. If you think you might be subject to the AMT, it may be worth sitting down to discuss your situation with a tax professional.

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## Employee Spotlight!

### Help us welcome our newest team member, Kristen Lang!

Kristen Lang joined the KGWP team in January of this year as an Office Administrator. Coming from a background in science and graduating with a Bachelor's in Dietetics from the Ohio State University in 2008, Kristen is new to the financial services industry. Kristen compared her experiences stating, "The health and wellness industry operates and functions very differently than the financial service industry. Whereas previously my experience has been working with individuals that are mainly concerned with the present, it is interesting that here, our clients are very much concerned with the future." In her spare time, Kristen is an avid photographer and a health and wellness enthusiast, which perfectly matches her active lifestyle. In fact, Kristen has already run 2 full marathons and hopes to run more in the future. Kristen enjoys balancing her busy life with work at KGWP. "My favorite part of working at KGWP is the opportunity to correspond with clients and of course I have great co-workers."

We are all very excited to have Kristen with us, and hope you will enjoy getting to know her as we have! Kristen can be reached at [klang@kgwp.com](mailto:klang@kgwp.com).

