2006

Alternative minimum tax: A middle class burden

Kelly Ann Williams

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ALTERNATIVE MINIMUM TAX:
A MIDDLE CLASS BURDEN

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Business Administration

by
Kelly Ann Williams

June 2006
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Approved by:

Dr. Jim Estes, Chair, Finance
6.7.06
Date

Dr. John Dorocak, Accounting

Dr. Michael Clarke
ABSTRACT

Since its inception in 1969, the Alternative Minimum Tax (AMT) has been utilized to keep taxpayers with higher income from taking advantage of loopholes and paying little or no income tax. Due to the ever changing nature of the tax laws, AMT has evolved over the past few decades. These changes, along with underlying problems of the AMT, have made it so it is no longer a tax on the wealthy as it was intended. As a result, each year an increasing number of middle class taxpayers are bearing the burden of the Alternative Minimum Tax.

The purpose of this project is to present what AMT is, to discuss the method by which it is calculated and its history; and to illustrate the reasons that the AMT is no longer viable today. It was shown that due to the growing burden that it imposes on the middle class the AMT no longer serves its intended purpose and should be significantly revised or eliminated all together.
ACKNOWLEDGEMENTS

A special thanks to the following people for without them nothing would have been possible. To my husband, Brian, and daughters, Katelin and Madeline, for the unconditional support, love, and encouragement. To my parents, for instilling in me from an early age the value of an education and for your steadfast guidance. To Dr. Jim Estes, for his willingness and guidance as my committee chair. To Dr. John Dorocak and Dr. Michael Clarke, for their participation.
DEDICATION

To my husband, Brian, for the love and dedication, past, present and future, wherever it may take us.
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CHAPTER ONE

INTRODUCTION

Statement of the Problem

Since its inception in 1969, the Alternative Minimum Tax (AMT) has been utilized to keep taxpayers with higher income from taking advantage of loopholes and paying little or no income tax. As with the ever changing nature of the tax laws, AMT has been modified over the past decades. However, these changes, along with underlying problems of the AMT, have made it so it is no longer a tax on the wealthy as intended. As a result, each year an increasing number of middle class taxpayers are bearing the burden of the Alternative Minimum Tax.

Purpose of the Project

The purpose of the project is to understand what AMT is, the method by which it is calculated and its history; and to demonstrate that the AMT is no longer viable today due to the growing burden it imposes on the middle class.
Methodology

The methodology chosen is of a qualitative nature and consists of a review of secondary research. It includes the review of literature on the subject of alternative minimum tax and related subjects. It includes examination of data relative to its impact on the American middle class and the effect of inflation. Research material includes studies by government agencies and others, newspapers, magazines, books and the tax code as set forth by the Internal Revenue Service.

Limitations of the Project

This project is limited to the study of Alternative Minimum Tax as it relates to the middle class. It is limited by the data and research material available on the topic. It is further limited by the ever changing nature of the United States tax code. The information presented in this project is based on the Internal Revenue Code (IRC) as of January 2006.

This project is further limited by the lack of uniform standards for defining middle class income. The Federal Census Bureau, and the federal government as a whole, does not have an official definition for middle class. The
definition of "middle class" tends to be elastic and varies based on geographic location and is not rooted in purely financial terms but also in social hierarchy, education, and occupation. The income ranges for middle and upper middle class in California are higher than in Alabama because of the higher cost of living. Further, the majority of census data on income levels is based on households rather than persons creating difficulties in finding an accurate, uniform definition of middle class income. In researching the definition of "middle class" in relation to salary I found annual salary ranges from $25,000 to $165,000 in different sources. Turning back to geography, $25,000 is hardly middle class in higher cost of living states. Due to the lack of uniform definition and the geographic disparities, this project takes into account the broad annual salary ranges of $25,000 to $165,000 in defining middle class.

Definition of Terms

Alternative Minimum Tax (AMT): The Alternative minimum tax is a separately figured tax that eliminates many deductions and credits, thus increasing tax liability for
an individual who would otherwise pay less tax (Internal Revenue Service, 2006).

Alternative Minimum Taxable Income (AMTI): The taxable income of a taxpayer for the tax year determined by adding and subtracting AMT adjustments and preferences.

Middle Class: Social class broadly defined occupationally as those working in white-collar and lower managerial occupations; sometimes defined by reference to income levels or subjective identification of the participants in the study (Elmer’s Dictionary, n.d.).

Plan of Study

Chapter one is an introduction to Alternative Minimum Tax. It includes the statement of the problem and the purpose of the research. It also includes the methodology and definition of terms.

Chapter two examines the requirements established by the Internal Revenue Service for AMT and how it is calculated. Chapter three summarizes the origins of Alternative Minimum Tax and the subsequent legislation pertaining to it.

Chapter four is an analysis of Alternative Minimum Tax as it pertains to the fiscal impact on the middle class. It
examines the underlying problems of AMT as well as the
effect of inflation. It also inspects the projected growth
of the alternative minimum tax if left unchanged.

Chapter five examines the viability of the AMT today.
It includes the concluding remarks of the project.
CHAPTER TWO

CALCULATING ALTERNATIVE MINIMUM TAX

Filing Requirements

The first obstacle for most taxpayers regarding Alternative Minimum Tax is determining if they have to file IRS Form 6251 for AMT for individuals. This means determining whether or not the taxable income on IRS Form 1040, joined with the AMT preference and adjustments, surpasses the AMT exemptions (Peckron, 2005).

For the two-thirds of tax filers who claim the standard deduction, the process is fairly simple. "If they elect not to itemize their deductions, they just subtract the AMT exclusion--$58,000 for married taxpayers filing jointly and $40,250 for most other taxpayers in 2003 and 2004--from adjusted gross income (AGI) and apply the two-step tax rates of 26 percent on the first $175,000 and 28 percent on any excess." If that amount exceeds their precredit regular tax liability, they owe the excess as AMT. (Williams, 2004, para 6)

For those taxpayers that itemize their deductions, it means completing the worksheet included in the Form 1040
instructions. This worksheet assists the taxpayer in determining whether or not they need to complete Form 6251.
**Worksheet To See if You Should Fill in Form 6251—Line 45**

**Before you begin:** Be sure you have read the Exception above to see if you must fill in Form 6251 instead of using this worksheet.

If you are claiming the foreign tax credit (see the instructions for Form 1040, line 47, on page 40), enter that credit on line 47.

1. Are you filing Schedule A?
   - No. Skip lines 1 through 3; enter on line 4 the amount from Form 1040, line 38, and go to line 5.
   - Yes. Enter the amount from Form 1040, line 41

2. Enter the smaller of the amount on Schedule A, line 4, or 2.5% (0.025) of the amount on Form 1040, line 38.

3. Enter the total of the amounts from Schedule A, lines 9 and 26.

4. Add lines 1 through 3 above.

5. Enter any tax refund from Form 1040, lines 10 and 21.

6. Subtract line 5 from line 4.

7. Enter the amount from Form 8914, line 2.

8. Subtract line 7 from line 6.

9. Enter the amount shown below for your filing status.
   - Single or head of household—$40,750
   - Married filing jointly or qualifying widow(er)—$81,500
   - Married filing separately—$20,000

10. Is the amount on line 8 more than the amount on line 9?
    - No. Skip line 9 from line 8.
    - Yes. Subtract line 9 from line 8.

11. Enter the amount shown below for your filing status.
    - Single or head of household—$150,000
    - Married filing jointly or qualifying widow(er)—$150,000
    - Married filing separately—$75,000

12. Is the amount on line 8 more than the amount on line 11?
    - No. Skip lines 12 and 13; enter on line 14 the amount from line 10, and go to line 15.
    - Yes. Subtract line 11 from line 8.

13. Multiply line 12 by 25% (0.25) and enter the result but do not enter more than line 9 above.


15. Is the amount on line 14 more than $175,000 ($87,500 if married filing separately)?
    - No. Skip line 14 from line 15.
    - Yes. Subtract line 14 from line 15.

16. Enter the amount from Form 1040, line 44, minus the total of any tax from Form 2972 and any amount on Form 1040, line 47. If you used Schedule J to figure your tax, the amount for Form 1040, line 44, must be recomputed without using Schedule J.

Next, is the amount on line 15 more than the amount on line 16?
    - Yes. Fill in Form 6251 to see if you owe the alternative minimum tax.
    - No. You do not need to fill in Form 6251.

---

**Figure 1. Alternative Minimum Tax Worksheet**

**Note.** From United States Internal Revenue Service.
Exemptions

Table 1. Alternative Minimum Tax Exemptions

<table>
<thead>
<tr>
<th>IF your filing status is...</th>
<th>AND AMT income is not over...</th>
<th>THEN exemption amount is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single or head of household</td>
<td>$112,500</td>
<td>$40,250</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>$150,000</td>
<td>$58,000</td>
</tr>
<tr>
<td>or qualifying widow(er)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married filing separate</td>
<td>$75,000</td>
<td>$29,000</td>
</tr>
</tbody>
</table>

Note. From United States Internal Revenue Service.

The AMT exemption is phased out completely when alternative minimum taxable income (AMTI) reaches specified levels. Thus, the exemption amount is zero if AMTI reaches:
Table 2. Alternative Minimum Taxable Income Thresholds

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>AMTI threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single or head of household</td>
<td>$273,500</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>$382,000</td>
</tr>
<tr>
<td>or qualifying widow(er)</td>
<td></td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$191,000</td>
</tr>
</tbody>
</table>

Note. From United States Internal Revenue Service

If your alternative minimum taxable income is greater than the amount in table 1 but less than the AMTI threshold in table 2, the exemption is phased out (IRS, n.d.). The phase out computation requires that the taxpayer multiply any AMTI over the limit specified in table 1 by 0.25 to reduce the exemption amount.

Example:
A taxpayer and spouse filing jointly have an alternative minimum taxable income of $165,000 for tax year 2004. This amount is $15,000 more than the $150,000 limit thus their exemption amount is:
AMT standard exemption $58,000

Less:

0.25($165,000 - $150,000) $3,750

AMT Exemption $54,250

*Calculation based on the formula:

AMT Standard exemption - 0.25 (AMTI - AMTI limit)

(Peckron, 2005)

Using this same calculation, the point at which the AMT exemption is zero can be found. For example, a single taxpayer with AMTI of $273,500 will have no AMT exemption based on the calculation:

$40,250 - 0.25 ($273,500 - $112,500) = $0

An AMTI of $273,500 is outside of the income range for a middle class taxpayer. Therefore, middle class taxpayers generally are not concerned with having the AMT exemption completely phased out but the limits are important to know.

The Internal Revenue Service provides an exemption worksheet in the instruction for Form 6251. This worksheet follows the same calculations as outlined above.
### Exemption Worksheet—Line 29

(Keep for Your Records)

**Note.** If Form 8251, line 28, is equal to or more than: $273,500 if single or head of household; $383,000 if married filing jointly or qualifying widow(er); or $181,000 if married filing separately; your exemption is zero. Do not complete this worksheet; instead, enter the amount from Form 8251, line 28, on line 30 and go to line 31.

1. Enter: $40,250 if single or head of household; $58,000 if married filing jointly or qualifying widow(er); $29,000 if married filing separately .......................... 1. __________
2. Enter your alternative minimum taxable income (AMTI) from Form 6251, line 28 ........................................... 2. __________
3. Enter: $112,500 if single or head of household; $150,000 if married filing jointly or qualifying widow(er); $75,000 if married filing separately ........ 3. __________
4. Subtract line 3 from line 2. If zero or less, enter -0- .......................... 4. __________
5. Multiply line 4 by 25% (.25) ........................................... 5. __________
6. Subtract line 5 from line 1. If zero or less, enter -0-. If this form is for a child under age 14, go to line 7 below. Otherwise, stop here and enter this amount on Form 6251, line 29, and go to Form 6251, line 30 ........................................................................................................ 6. __________
7. Child’s minimum exemption amount ........................................ 7. $5,850
8. Enter the child’s earned income, if any (see instructions) .................. 8. __________
9. Add lines 7 and 8 ........................................................................... 9. __________
10. Enter the smaller of line 6 or line 9 here and on Form 6251, line 29, and go to Form 6251, line 30 ........................................................................................................ 10. __________

---

**Figure 2. Alternative Minimum Tax Exemption Worksheet**

**Note.** From United States Internal Revenue Service.

### Tax Rates

Regular income tax is progressive in nature and has various tax rates ranging 10 to 35 percent. The AMT however has only two tax rates. The first $175,000 of Alternative Minimum Taxable Income is taxed at a rate of 26 percent. Any AMTI over $175,000 is taxed at a rate of 28 percent.
Common Alternative Minimum Tax Adjustments

Personal Exemptions and Standard Deductions

The IRS allows for personal exemptions and standard deductions to reduce regular tax. However, they are not allowed under AMT and the exemption deductions must be “added back” when computing alternative minimum taxable income. These exemptions will be excluded on line 1 of Form 6251 by entering either the amount from Form 1040 line 40 or line 37 depending on whether the taxpayer itemizes deductions or takes the standard deduction (Peckron, 2005).

“The AMT currently has a disproportionate impact on large families by denying them the dependent exemptions allowed in the regular income tax” (Williams, 2004, para 23). For example, a married couple with four children would under regular tax law be allowed an exemption of $19,200 (six personal exemptions at $3,200 each under 2005 tax law). The U.S. Bureau of the Census reports in 2000 that the average number of children in the United State varies from a low of 1.71 children in West Virginia to a high of 2.21 in Utah. Rounding the census figures to two children per family, the average traditional married family consists of four members.
Looking further at the U.S. census the median family income by family size varies by geographically location. A four person family in New Mexico has a median income of $47,256 annually while in Connecticut it is $88,276. Comparing the U.S. census figures it is interesting to note that in over half the states, as family size exceeds seven or more persons the median income decreased. Middle class taxpayers that choose to have larger families over the four person norm may be subjected to AMT because personal exemptions are disregarded in alternative minimum tax calculations.

State and Local Taxes

While state and local taxes are deducted as Itemized Deductions on Schedule A, they are disallowed for Alternative Minimum Tax calculations. As with the standard deduction, state and local taxes deducted on Schedule A must be added back to calculate alternative minimum taxable income (Lewis, 2003). Appendix 3, as reported by the U.S. Department of Commerce, states the per capita amount of state and local taxes by state. This table can be used to illustrate the amount tax payers subject to alternative minimum tax need to add back to their regular taxable income.
Other Taxes

Other taxes that are not permitted for alternative minimum tax purposes include property taxes on items including real estate, or personal property such as vehicles. Other exclusions include foreign real property, foreign income taxes, local income taxes, or excess profits (Peckron, 2005).

Medical Expenses

When itemizing taxes on Schedule A Form 1040, taxpayers may deduct medical expenses that are in excess of 7.5% of adjusted gross income (AGI). For alternative minimum tax purposes, the medical expenses must exceed 10% of AGI, 2.5% more than for regular tax calculations. (IRS, n.d)

Example: A taxpayer has an adjusted gross income of $75,000 and medical expenses of $10,000. When itemizing deductions for Schedule A of Form 1040, the taxpayer may deduct $4,375 in medical expenses. This is calculated by subtracting $5,625 (0.075 * $75,000 AGI) from the total medical expenses of $10,000. However, only $2,500 would be allowed to be deducted for AMT purposes because the medical expenses did not exceed 10% of AGI.
Miscellaneous Itemized Deductions

While miscellaneous itemized deductions that exceed 2% of adjusted gross income are deductible on Form 1040 Schedule A, they are not recognized for AMT. If the miscellaneous deduction is not subject to the 2% rule than it is recognized for both regular and alternative minimum tax. (IRS, n.d.) Examples of miscellaneous itemized deductions subject to the 2% rule include:

- Dues paid to professional societies,
- Employment-related educational expenses,
- Expenses of looking for a new job,
- Professional books and magazines,
- Union dues and fees,
- Business related travel, transportation, meals and entertainment
- Work clothes and uniform
- Legal fees to collect taxable income, such as alimony,
- Fees for renting a safe deposit box to store investment-related material; and
- Fees for having a tax return prepared. (IRS, n.d.)
**Incentive Stock Options**

An incentive stock option is an option type that is taxed when the stock acquired is sold rather than when it is exercised. However, when calculating alternative minimum taxable income this rule does not apply. Instead as a taxpayer you must include on line 13 of Form 6251 of:

1. The fair market value of the stock acquired through exercise of the option (determined without regard to any lapse restriction) when your rights in the acquired stock first become transferable or when these rights are no longer subject to a substantial risk of forfeiture, over

2. The amount you paid for the stock, including any amount you paid for the ISO used to acquire the stock. (IRS, n.d.)

The exception to this is if the incentive stock option is exercised and then the stock is disposed of in the same year. The tax treatment under the regular tax and the alternative minimum tax would be the same so no adjustment on form 6251 would be needed.
Add:

Regular taxable income
+Medical/dental deductions
+Specified miscellaneous itemized deductions subject to AMT
+State/local/real estate tax deductions
+Personal exemptions
+Spread on ISO exercise
= Preliminary AMT taxable income

Subtract:

$45,000 AMT standard exemption
= Actual AMT taxable income

Multiply:

Actual AMT taxable income times 26% for amounts up to $175,000, plus 28% of amounts over that
= Tentative minimum tax

Subtract:

Tentative minimum tax - Regular tax
= AMT

Figure 3. Summary of Calculating Alternative Minimum Tax

The Minimum Income Tax of 1969

The history of Alternative Minimum Tax has its roots in the Vietnam War when the government needed additional funding to support the war efforts. The Johnson administration appointed Joseph Barr, Treasury Secretary, and Stanley S. Surrey, Assistant Secretary of the Treasury, to scrutinize the tax code and to close any tax loopholes in an effort of tax reform. (Goodman, 2005,) In 1969, Barr reported before Congress that "155 people with adjusted gross income above $200,000 had paid no federal income tax on their 1967 tax returns. Adjusted for inflation, $200,000 in 1966 dollars equals about $1.1 million in today's dollars" (Schuler, 2001, para 12).

This disclosure led to much public dismay however, President Lyndon Johnson designated the duty of tax reform to the Nixon administration, which would be taking office shortly. In April of 1969, the Nixon Administration offered before Congress its tax reform policy along with the following statement: (Goodman, 2005)
Reform of our Federal income tax is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of this tax burden.... We must reform our tax structure to make it more equitable and efficient; we must redirect our tax policy to make it more conducive to stable economic growth and responsive to urgent social needs. Much concern has been expressed because some citizens with incomes of more than $200,000 pay no federal income taxes. These people are neither tax dodgers or tax cheats. Many of them pay no taxes because they make large donations to worthy causes donations that every taxpayer is authorized by existing law to deduct from his income in figuring his tax bill. But where we can prevent it by law, we must not permit our wealthiest citizens to be 100 percent successful at tax avoidance. Nor should the Government limit its tax reform only to apply to these relatively few extreme cases. (New York Times, April 22, 1969)

The minimum income tax was thus enacted in 1969 as an add-on tax. "People had to pay a 10 percent tax on the amount to which their reductions of tax liability (tax
preferences) exceeded $30,000” (Schuler, 2001, para 13). In 1976, that add-on tax amount was increased to fifteen percent while the exemption was lowered to $10,000.

The Tax Reform of 1978

While the minimum tax was altered several times in the years following its enactment in 1969, the biggest change came with the Tax Reform of 1978. With this tax reform the minimum tax was altered from an add-on tax to be the alternative minimum tax that is in existence today. The Revenue Act of 1978 was a response to concerns that the tax structure was causing a decrease in capital formation. Alternative Minimum Tax was in conjunction with the add-on minimum tax with graduated rates of 10%, 20% and 25%, and an exemption of $25,000. (Schuler, 2001) “Taxpayers paid AMT if their AMT liability exceeded regular tax plus add-on tax. Upon its inception, the AMT had more than twice as many taxpayers and raised twice as much revenue as the add-on tax” (Burman, Gale, Rohaly, & Harris, 2002, p.16).


With the Tax Equity and Fiscal Responsibility Act of 1982, the “add-on” tax was repealed completely. Exemptions
were changed to $20,000 for individual taxpayers and $40,000 for joint returns. Further, the tax act altered the AMT rate to a flat 20% that was applied after subtracting the exemption amount from alternative minimum taxable income. (Weiner, 1999)

As with previous reforms the Tax Act of 1986 added more tax preferences including long term capital gains. The tax act created a phase out of exemptions for taxpayers and eliminated the exemption completely for higher income taxpayers. It created an income tax credit for AMT liability from prior year as well as raised the AMT rate to 21 percent.

Subsequent Tax Acts and Reforms

Since 1986, numerous tax policies have continued to evolve the Alternative Minimum Tax into its current condition. The Omnibus Reconciliation Act of 1990 increased the AMT rate to 24 percent. Under the Clinton Administration the Omnibus Reconciliation Act of 1993 was passed by the House on August 5th with a 218 to 216 vote. It was approved by Senate the next day with no Republications voting in its favor. (Goodman, 2005) For taxpayers who earned between $100,000 and $175,000, the AMT rate was
increased to 26 percent and for those earning above $175,000 to 28 percent. Further, exemptions were increased to $33,750 for individuals and $45,000 for married couples.

The Taxpayer Relief Act of 1997 reduced capital gains rates in the AMT. It also created the child tax credit as well as the education credits which ultimately cause a greater number of taxpayers to become subjected to AMT. Two significant legislations were the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 and the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003.

EGTRRA of 2001 raised the exemptions to $35,750 for single taxpayers and $49,000 for married taxpayers. It also allowed for certain tax credits to be applied against regular tax liability regardless of the AMT. The JGTRRA of 2003 further increased exemptions to $40,250 and $58,000 for individual and joint returns respectively. The JGTRRA carried a sunset provision that the exemption rates were to return to the 2002 levels however, this provision was extended by Congress through 2006 as the government continues to find solutions for the AMT dilemma.

The EGTRRA of 2001 and JGTRRA of 2003 lowered the marginal tax rate for most taxpayers. However the applicable AMT rates were not adjusted in step with the
lowered rates of EGTRRA and the 2003 act, causing many more
people to face higher taxes because of the AMT than had
originally been planned. This reduced some of the benefit
of EGTRRA and the 2003 act for many middle income earners”
(answers.com, n.d.).
CHAPTER FOUR

UNDERLYING PROBLEMS OF ALTERNATIVE MINIMUM TAX

Two of the significant problems with the AMT involve the cost of compliance: first in time and money for the taxpayer and fiscally for the Internal Revenue Service. One complexity of the alternative minimum tax is that taxpayers are first required to compute their regular tax and then go back to calculate if they owe AMT based on different income brackets, exemptions and preferences. While there is no direct way to derive the full costs for taxpayers to figure AMT, there have been estimates such as calculating the value of the time spent on preparing the form. "For 1997 returns (filed in 1998), these estimated costs were approximately $360 million" (Schuler, 2001, para 21).

Naturally, having additional tax forms requires more work for the IRS to make sure taxpayers are in compliance with the tax laws. Due to the complexity of the alternative minimum tax, using computers to check calculations is not always effective. Often, compliance needs to be measured through audits proving to be timely and costly for the IRS in terms of labor.
An important feature of the tax brackets and personal exemptions for the regular tax is that they are indexed for inflation on an annual basis. This helps to prevent bracket creep defined as "an automatic upward shift in the marginal income tax bracket through inflation" (Turbotax, n.d.). The exemption amounts for the alternative minimum tax are not indexed for inflation. As shown in the review of the history of AMT in chapter three Congress has, over time, raised the exemption amounts but not at the rate needed to keep up with inflation. Since the Omnibus Reconciliation Act of 1993 exemption amounts for individuals have increased from $33,750 to $40,250, a 19.26 percent increase. According to the Consumer Price Index, inflation has increased 36.95 percent during that same time period.

The current exemption amounts of $58,000 for married taxpayers and $40,250 for those unmarried, are set to expire at the end of this year. If it is not extended the exemption amounts will return to the pre-2001 levels, making the disparity of not being indexed for inflation greater. If Congress elects to keep the current exemption rates on a permanent basis, as well as index it and other aspects of the AMT for inflation, the number of taxpayers who would be subject to AMT in the coming years would
decline. "About 5 million taxpayers would owe AMT in 2010, a reduction of more than 80 percent from the estimated 29 million taxpayers who would otherwise owe AMT in that year" (Williams, 2004, Changing AMT section, para 3).

This lack of inflation indexing is a prime factor in the growing number of taxpayers being burdened with AMT. When income grows due to inflation regular tax liability generally does not grow because both the regular tax and the income are moving at the same inflation rate. Since AMT is not indexed, the AMT liability as a percentage of income is raised with real income growth. Thus, as more people have an AMT liability that exceeds the regular tax liability, the number of people paying AMT grows. (White, 2001)

Another factor in the increase number of taxpayers paying alternative minimum tax is the tax cuts of 2001 and 2003, as discussed in Chapter 3. Taxpayers must pay the greater of either the regular tax or the AMT due. The tax cuts lowered taxpayer's regular tax liability but given that there were no changes in AMT, many taxpayers were faced with that burden instead.
Future Growth of Alternative Minimum Tax

Alternative Minimum Tax was originated to prevent high income taxpayers from paying little or no income tax through the use of tax loopholes. However, it is no longer just for high income taxpayers. Instead, the alternative minimum tax is increasingly affecting the middle class and will continue to do so at a staggering rate unless it is repealed or reformed. “Since 2000 the AMT has steadily grown, hitting roughly 3 percent of taxpayers in 2005. If left unchanged, the AMT will penalize nearly 20 percent of taxpayers by 2010—some 30 million Americans in total” (Chamberlain & Fleenor, 2005, para 3).
Figure 4. Number of Alternative Minimum Tax Taxpayers

*Note.* Assumes EGTRRA and JGTRRA sunsets are repealed and the temporary AMT provisions are allowed to expire in 2005.


The figures presented by the Department of Treasury assume that EGTRRA and JGTRRA sunsets are repealed and that the higher exemption amounts were allowed to expire in 2005. These exemption amounts were extended through 2006 but this data gives the best example of the projected growth of AMT if not extended past the current tax year.
Figure 5. Percentage of Taxpayers on Alternative Minimum Tax, by Income Class (in 2005$)

Note. Assumes EGTRRA and JGTRRA sunsets are repealed and the temporary AMT provisions are allowed to expire in 2005.


Viewing the data on the figure it is apparent that the middle class will be greatly burdened by the alternative minimum tax. At several points on the graph, the percentage of middle class taxpayers with income of $50,000 to $100,000 paying AMT is higher then those with income of over $1 million dollars. The percentage of taxpayers
earning $100,000 to $500,000 increases drastically from 2005 to 2006 under the assumption that the exemption amounts returned to pre-2001 levels. While those amounts are to remain in effect for the 2006 tax year, this chart poses a distressing situation if the amounts are lowered for 2007.

While the figures of the projected growth of alternative minimum tax over the next decade cannot be actualized, the fact that it will impact the middle class still remains. "The AMT exemption protects most low-income taxpayers, and the maximum 28 percent alternative tax rate keeps most taxpayers with the highest income off AMT" (Williams, 2004, Projected Growth section, para 2). Furthermore, married couples filing jointly are more likely to have AMT liability than their unmarried counterparts due in part to the dual income. It is projected that for the middle class (as well as married couples) the personal exemption will play a key part in the number of taxpayers paying AMT. This is projected to be the most common item to be added back into taxpayers taxable income under AMT. (Carroll, 2005)
CHAPTER FIVE

VIABILITY

Webster's dictionary defines viable as "capable of success or continuing effectiveness." In determining whether or not alternative minimum tax is viable the following question must be answered: Is the alternative minimum tax achieving its intended goal?

When the concept of the add-on tax, and later the alternative minimum tax, originated in 1969 it was to ensure that high income taxpayer were paying their fair share of taxes. Recall in Chapter 3, that the Nixon Administration stated "special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of this tax burden. . . We must reform our tax structure to make it more equitable and efficient" (Goodman, 2005). The way in which alternative minimum tax is structured currently, as discussed previously, levies an ever increasing burden on the middle class. By analyzing the underlying problems and projected growth, it is evident there is nothing equitable, or efficient, about the AMT.
According to the Internal Revenue Service Fall 2000, Statistics of Income Bulletin, a little more than 93 million people paid regular income tax on their tax returns. Combine that with the IRS estimate that "without the AMT for individuals, about 14,000 taxpayers would pay no federal income tax" (Schuler, 2001, Problems section, para 2). The end result would be that "99.985 percent of taxpayers paying income tax were already doing so even without AMT." (Schuler, 2001, Problems section, para 2).

The fact that the alternative minimum tax is not impacting its intended target is shown by the increasing number of middle class taxpayers subject to AMT liability. Combine this with the figure that 99.985% of taxpayers are paying their taxes even without AMT illustrates that it is not needed and its intended goal not met. Finally, the alternative minimum tax does not promote stable economic growth, with its burden on the middle class, as desired by the Nixon Administration.
APPENDIX A

INTERNAL REVENUE SERVICE FORM 6251
### Part I: Alternative Minimum Taxable Income

**1.** If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41 (minus any amount on Form 6914, line 2), and go to line 2. Otherwise, enter the amount from Form 1040, line 28 (minus any amount on Form 6914, line 2), and go to line 7. (If less than zero, enter as a negative number).

**2.** Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% of Form 1040, line 39.

**3.** Taxes from Schedule A (Form 1040), line 9.

**4.** Enter the home mortgage interest adjustment, if any, from line 8 of the worksheet on page 2 of the instructions.

**5.** Miscellaneous deductions from Schedule A (Form 1040), line 26.

**6.** If Form 1040, line 38, is over $145,050 (over $72,975 if married filing separately), enter the amount from line 9 of the Itemized Deductions Worksheet on page A-9 of the Instructions for Schedules A & B (Form 1040).

**7.** Tax refund from Form 1040, line 10 or line 21.

**8.** Investment interest expense (difference between regular tax and AMT).

**9.** Depreciation (difference between regular tax and AMT).

**10.** Net operating loss deduction from Form 1040, line 21. Enter as a positive amount.

**11.** Interest from specified private activity bonds exempt from the regular tax.

**12.** Depreciation and other cost capitalized between the lines (difference between regular tax and AMT).

**13.** Exercise of incentive stock options (excess of AMT income over regular tax income).

**14.** Estates and trusts (amount from Schedule K-1 (Form 1065-B), box 12, code A).

**15.** Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6).

**16.** Disposition of property (difference between AMT and regular tax gain or loss).

**17.** Depreciation on assets placed in service after 1966 (difference between regular tax and AMT).

**18.** Passive activities (difference between AMT and regular tax income or loss).

**19.** Loss limitations (difference between AMT and regular tax income or loss).

**20.** Circulation costs (difference between regular tax and AMT).

**21.** Long-term contracts (difference between AMT and regular tax income).

**22.** Mining costs (difference between regular tax and AMT).

**23.** Research and experimental costs (difference between regular tax and AMT).

**24.** Income from certain installment sales before January 1, 1987.

**25.** Intangible drilling costs preference.

**26.** Other adjustments, including income-based related adjustments.

**27.** Alternative tax not operating loss deduction.

**28.** Alternative minimum taxable income. Combine lines 1 through 27. (If married filing separately and line 28 is more than $101,000, see page 7 of the instructions.)

### Part II: Alternative Minimum Tax

**29.** Exemption. (If this form is for a child under age 14, see page 7 of the instructions.)

<table>
<thead>
<tr>
<th>IF your filing status is...</th>
<th>AND line 29 is not over...</th>
<th>THEN enter on line 29...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single or head of household</td>
<td>$112,500</td>
<td>$40,250</td>
</tr>
<tr>
<td>Married filing jointly or qualifying widow(er)</td>
<td>150,000</td>
<td>68,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>75,000</td>
<td>28,000</td>
</tr>
</tbody>
</table>

If line 28 is over the amount above for your filing status, see page 7 of the instructions.

**30.** Subtract line 29 from line 28. If zero or less, enter -0- here and on lines 33 and 35 and stop here. (If you reported capital gain from Schedule D (Form 1040), line 29: you reported qualified dividends on Form 1040, line 28; or you report capital gains from Schedule D (Form 1040), line 28; or you report capital gains from Schedule D (Form 1040), line 28, enter -0- here and on lines 33 and 35 and stop here. (If you reported capital gain from Schedule D (Form 1040), line 29: you reported qualified dividends on Form 1040, line 28; or you report capital gains from Schedule D (Form 1040), line 28, enter -0- here and on lines 33 and 35 and stop here.

**31.** Alternative minimum tax foreign tax credit (see page 7 of the instructions).

**32.** Tentative minimum tax. Subtract line 32 from line 31.

**33.** Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount for line 44 of Form 1040 must be refigured without using Schedule J (see page 9 of the instructions).

**35.** Alternative minimum tax. Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45.
### Part III  Tax Computation Using Maximum Capital Gains Rates

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Enter the amount from Form 6251, line 39</td>
</tr>
<tr>
<td>37</td>
<td>Enter the amount from line 8 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 13 of the Schedule D Tax Worksheet on page D-9 of the instructions for Schedule D (Form 1040), whichever applies (as figured for the AMT, if necessary) (see page 9 of the instructions)</td>
</tr>
<tr>
<td>38</td>
<td>Enter the amount from Schedule D (Form 1040), line 19 (as figured for the AMT, if necessary) (see page 9 of the instructions)</td>
</tr>
<tr>
<td>39</td>
<td>If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 36, and enter the smaller of that result or the amount from line 10 of the Schedule D Tax Worksheet (as figured for the AMT, if necessary)</td>
</tr>
<tr>
<td>40</td>
<td>Enter the smaller of line 36 or line 39</td>
</tr>
<tr>
<td>41</td>
<td>Subtract line 40 from line 36</td>
</tr>
<tr>
<td>42</td>
<td>If line 41 is $175,000 or less ($87,500 or less if married filing separately), multiply line 41 by 26% (.26). Otherwise, multiply line 41 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result</td>
</tr>
<tr>
<td>43</td>
<td>Enter:</td>
</tr>
<tr>
<td></td>
<td>• $59,400 if married filing jointly or qualifying widow(er),</td>
</tr>
<tr>
<td></td>
<td>• $29,700 if single or married filing separately, or</td>
</tr>
<tr>
<td></td>
<td>• $39,600 if head of household.</td>
</tr>
<tr>
<td>44</td>
<td>Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040, line 44, or the amount from line 14 of the Schedule D Tax Worksheet on page D-9 of the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter -0-.</td>
</tr>
<tr>
<td>45</td>
<td>Subtract line 44 from line 43. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>46</td>
<td>Enter the smaller of line 39 or line 37</td>
</tr>
<tr>
<td>47</td>
<td>Enter the smaller of line 45 or line 46</td>
</tr>
<tr>
<td>48</td>
<td>Multiply line 47 by 5% (.05)</td>
</tr>
<tr>
<td>49</td>
<td>Subtract line 47 from line 46</td>
</tr>
<tr>
<td>50</td>
<td>Multiply line 49 by 15% (.15)</td>
</tr>
<tr>
<td>51</td>
<td>Subtract line 46 from line 40</td>
</tr>
<tr>
<td>52</td>
<td>Multiply line 51 by 25% (.25)</td>
</tr>
<tr>
<td>53</td>
<td>Add lines 42, 48, 50, and 52</td>
</tr>
<tr>
<td>54</td>
<td>If line 36 is $175,000 or less ($87,500 or less if married filing separately), multiply line 36 by 26% (.26). Otherwise, multiply line 36 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result</td>
</tr>
<tr>
<td>55</td>
<td>Enter the smaller of line 53 or line 54 here and on line 31</td>
</tr>
</tbody>
</table>

APPENDIX B

INTERNAL REVENUE SERVICE FORM 6251 INSTRUCTIONS
Instructions for Form 6251
(Rev. January 2006)

Alternative Minimum Tax—Individuals

General Instructions
Section references are to the Internal Revenue Code.

What’s New
• The foreign tax credit of a farmer or fisherman using Schedule J does not need to be refigured on line 34.
• The interest on qualified Gulf Opportunity Zone (GO Zone) bonds is not a tax preference item. Do not include it on line 11. See page 5.
• No alternative minimum tax (AMT) adjustment is required for depreciation of qualified GO Zone property that is eligible for the special depreciation allowance. See the instructions for line 17 on page 4.
• The domestic production activities deduction is not taken into account in figuring the ATNOLD. See the Instructions for line 27 on page 7.
• The 90% limit on the alternative net operating loss deduction (ATNOLD) does not apply to the portion of an ATNOLD attributable to qualified GO Zone losses. Such portion can be applied to offset up to 100% of alternative minimum taxable income (AMTI) figured without regard to the ATNOLD and the domestic production activities deduction). See page 7.
• For 2005, the minimum exemption amount for a child under age 14 has increased to $4,600.
• Beginning in 2005, you generally can use your entire alternative minimum tax foreign tax credit to reduce your pre-credit tentative minimum tax. The 90% limit no longer applies.
• The exemption amount on Form 6251 that is allowable for the regular tax if you provided housing for a person displaced by Hurricane Katrina is also allowable for the AMT.

Purpose of Form
Use Form 6251 to figure the amount, if any, of your alternative minimum tax (AMT). The AMT applies to taxpayers who have certain types of income that receive favorable treatment, or who qualify for certain deductions, under the tax law. These tax benefits can significantly reduce the regular tax of some taxpayers with higher economic incomes. The AMT sets a limit on the amount these benefits can be used to reduce total tax.

Also use Form 6251 to figure the tax liability limit on the credits listed under Who Must File below.

Who Must File
Attach Form 6251 to your return if any of the following statements is true.
• Form 6251, line 31, is greater than line 34.
• You claim any general business credit, the qualified electric vehicle credit, the nonconventional source fuel credit, or the credit for prior year minimum tax.
• The total of Form 6251, lines 8 through 27, is negative and line 31 would be greater than line 34 if you did not take into account lines 8 through 27.

Recordkeeping
For the AMT, certain items of income, deductions, etc., receive different tax treatment than for the regular tax. Therefore, you need to refigure items for the AMT that you figured for the regular tax. In some cases, you may wish to do this by completing the applicable tax form a second time. If you do complete another form, do not attach it to your tax return, but keep it for your records. However, you must attach an AMT Form 1116, Foreign Tax Credit, to your return; see the instructions for line 32 beginning on page 7.

For the regular tax, some deductions and credits may result in carrybacks or carryforwards to other tax years. Examples are investment interest expense, a net operating loss, a capital loss, a passive activity loss, and the foreign tax credit. Because you may have to refigure these items for the AMT, the carryback or carryforward amount may be different for the AMT than for the regular tax. Your at-risk limits and basis amounts also may differ for the AMT. Therefore, you must keep records of these different amounts.

Partners and Shareholders
If you are a partner in a partnership or a shareholder in an S corporation, see Schedule K-1 and its instructions to figure your adjustments or preferences from the partnership or S corporation to include on Form 6251.

Nonresident Aliens
If you are a nonresident alien and you disposed of U.S. real property interests at a gain, you must make a special computation. Fill in Form 6251 through line 30. If your net gain from the disposition of U.S. real property interests and the amount on line 28 are both greater than the tentative amount you figured for line 30, replace the amount on line 30 with the smaller of that net gain or the amount on line 28. Also, enter "RI" on the dotted line next to line 30. Otherwise, do not change line 30.

Form 1040NR. If you are filing Form 1040NR, treat any reference in these instructions on Form 6251 as if it were a reference to Form 1040 as a reference to the corresponding line on Form 1040NR.

Credit for Prior Year Minimum Tax
See Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, if you paid AMT for 2004 or you had a minimum tax credit carryforward on your 2004 Form 8801. If you pay AMT for 2005, you may be able to take a credit on Form 8801 for 2006.

Optional Write-Off for Certain Expenditures
There is no AMT adjustment for the following items if you elect for the regular tax to deduct them ratably over the period of time shown.
• Circulation expenditures—3 years (section 173).
• Research and experimental expenditures—10 years (section 174(a)).
• Mining exploration and development costs—10 years (sections 616(a) and 617(a)).
• Intangible drilling costs—60 months (section 263(c)).

For information on making the election, see section 59(e) and Regulations section 1.59-1. Also see Pub. 536.

Specific Instructions

Tip If you owe AMT, you may be able to lower your total tax (regular tax plus AMT) by claiming itemized deductions on Form 1040, even if your total itemized deductions are less than the standard deduction. This is because the standard deduction is not allowed for the AMT and, if you claim the standard deduction on Form 1040, you cannot claim itemized deductions for the AMT.
Part I—Alternative Minimum Taxable Income (AMTI)

To avoid duplication, any adjustment or preference for line 5, 15, 19, or 19 or for a tax shelter
form activity on line 29 must not be taken into account in figuring the amount to enter
for any other adjustment or preference.

Line 1
If Form 1040, line 43, includes a write-in amount (such as a capital construction fund
deduction for commercial fishermen), adjust line 1 by the write-in amount.

Line 3—Taxes
Enter the amount of all taxes from Schedule A (Form 1040), line 9, except generation-skip
transfer taxes, or income distributions, the sure to include any state and local general sales
income taxes included on Schedule A, line 9.

Line 4—Home Mortgage Interest Adjustment
Complete the worksheet on this page to figure your home mortgage interest adjustment. The
amounts of certain terms used in the worksheet are as follows.

Eligible mortgage. An eligible mortgage is a mortgage whose proceeds were used
to buy, build, or substantially improve your principal residence or a second home that is
 qualifies as a qualified dwelling. A mortgage whose proceeds were used to refinance another
morgage is not an eligible mortgage.

1. Enter the total of the home mortgage interest you deducted on lines 10 through 12 of Schedule A (Form 1040) .
2. Enter the part, if any, of the interest included on line 1 above that was paid on an eligible mortgage (defined on this page) .
3. Enter the part, if any, of the interest included on line 1 above that was paid on a mortgage whose proceeds were used in a refinancing (including a second or later refinancing) of an eligible mortgage. Do not include any interest paid on the part of the balance of the new mortgage that exceeded the balance of the original eligible mortgage immediately before it was refinanced (or, if smaller, the balance of any prior refinanced mortgage immediately before that mortgage was refinanced) .
4. Enter the part, if any, of the interest included on line 1 above that was paid on a mortgage: Take out before July 1, 1982, and Secured, all the time the mortgage was taken out, by your main home or a qualified dwelling used by you or your family (see definitions on this page). Do not include any amount entered on line 2 or line 3 above .
5. Add lines 2 through 4 .
6. Subtract line 5 from line 1 and enter the result on Form 6251, line 4 .

Line 7—Refund of Taxes
Enter any refund from Form 1040, line 10, that is attributable to state or local income taxes. Also include any refunds received in 2005 and included in income on Form 1040, line 21, that are attributable to state or local personal property taxes or general sales taxes, foreign income taxes, or state, local, or foreign real property taxes. If you include an amount from line 21, you must enter a description and the amount next to the

Home Mortgage Interest Adjustment Worksheet—Line 4

(Keep For Your Records)

1. ____________
2. ____________
3. ____________
4. ____________
5. ____________
6. ____________

Line 8—Investment Interest
If you filled out Form 4952, Investment Interest Expense Deduction, for your regular tax, you will need to fill out a second Form 4952 for the AMT as follows.

Step 1. Follow the Form 4952 instructions for line 1, but also include the following amounts when completing line 1:
Any interest expense on Form 6251, line 4, that was paid or accrued on indebtedness attributable to property held for
residential rental use within the meaning of section 163(d)(5) (for example, interest on a home equity loan whose proceeds were
invested in stocks or bonds)
Any interest that would have been deductible if interest earned on private activity bonds issued after August 7, 1986, had been includable in gross

Step 2. Enter your AMT disallowed investment interest expense from 2004 on line 2, Complete line 3.

Step 3. When completing Part II, refiuge the following amounts, taking into account all adjustments and preferences:
Gross income from property held for investment
Net gain from the disposition of property held for investment
Net capital gain from the disposition of property held for investment
Investment expenses.

Include any interest income and investment expenses from private activity bonds issued after August 7, 1986.

On line 4g, enter the smaller of:
The amount from line 4g of your regular tax Form 4952, or The total of lines 4b and 4e of this AMT Form 4952.

Step 4. Complete Part III.
Enter on Form 6251, line 8, the difference between line 8 of your AMT Form 4952 and line 8 of your regular tax Form 4952. If your AMT expense is greater, enter the difference as a negative

Investment interest expense that is not an itemized deduction, if you did not itemize deductions and you had investment interest expense, do not enter an amount on Form 6251, line 8, unless you reported investment interest expense on Schedule E. If you did, follow the steps above for completing Form 4952. Allocate the investment interest expense allowed on line 6 of the AMT Form 4952 in the same way you did for the regular tax.
Enter on Form 6251, line 8, the difference between the amount allowed on Schedule E for the regular tax and the amount allowed on Schedule E for the AMT.
Line 9—Depletion
You must figure your depletion deduction for the AMT. To do so, use only income and deductions allowed for the AMT when figuring the limit based on taxable income from the property under section 612(a) and the limit based on taxable income, with certain adjustments, under section 612(a)(1). Also, your depletion deduction for mines, wells, and other natural deposits under section 611 is limited to the property’s adjusted basis at the end of the year, as figured for the AMT, unless you are an independent producer or royalty owner claiming percentage depletion for oil and gas wells under section 613A(c). Figure this limit separately for each property. When figuring the property’s adjusted basis, take into account any capital gain or loss you made this year or in previous years that affect basis (other than current year depletion).

Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

Line 11—Interest From Private Activity Bonds
Enter on line 11 interest you earned on “specified private activity bonds” reduced (but not below zero) by any deduction that would have been allowable if the interest were includable in gross income for the regular tax. Generally, the term “specified private activity bond” means any private activity bond (as defined in section 1402) issued after August 7, 1986. See section 57(a)(5) for exceptions and more details.

Do not include interest on qualified Gulf Opportunity Zone bonds described in section 1400Q.

Exempt-interest dividends paid by a regulated investment company are treated as interest income on specified private activity bonds to the extent the dividends are attributable to interest on the bonds received by the company minus an allocable share of the expenses paid or incurred by the company in earning the interest.

If you are filing Form 8814, Parents’ Election To Report Child’s Interest and Dividends, any tax-exempt interest income from line 1b of that form that is a preference item must be included on this line.

Line 12—Qualified Small Business Stock
If you claimed the exclusion under section 1202, the gain on qualified small business stock held more than 5 years, multiply the excluded gain (as shown on Schedule D, Part V, line 5) by 7% (0.07). Enter the result on line 12 as a positive amount.

Line 13—Exercise of Incentive Stock Options
For the regular tax, no income is recognized when an incentive stock option (ISO), as defined in section 422(b), is exercised. However, this rule does not apply for the AMT. Instead, you generally must include on line 13 the excess, if any, of:

1. The fair market value of the stock acquired through exercise of the option (determined without regard to any lapse restriction) when your rights in the acquired stock first become transferrable or when those rights are no longer subject to a substantial risk of forfeiture, over
2. The amount you paid for the stock, including any amount you paid for the ISO used to acquire the stock.

Note. Even if your rights in the stock are not transferrable and are subject to a substantial risk of forfeiture, you may elect to include in AMT Income the excess of the stock’s fair market value (determined without regard to any lapse restriction) over the exercise price upon the transfer to you of the stock acquired through exercise of the option. You must make the election by the 30th day after the date of the transfer. See Pub. 525, Taxable and Nontaxable Income, for more details.

If you acquired stock by exercising an ISO and you disposed of that stock in the same year, the tax treatment under the regular tax and the AMT is the same, and no adjustment is required.

Increase your AMT basis in any stock acquired through the exercise of an ISO by the amount of the adjustment. Keep adequate records for both the AMT and regular tax so that you may figure your adjustment. See the instructions for line 16.

Line 15—Large Partnerships
If you were a partner in an electing large partnership, enter the amount from Schedule K-1 (Form 1066-E), box 6. Take into account any amount from box 5 on Form 6251, line 1e.

Line 16—Disposition of Property
Your AMT gain or loss from the disposition of property may be different from your gain or loss for the regular tax. This is because the property may have a different adjusted basis for the AMT. Use this line to report any AMT adjustment resulting from figuring:

1. Gain or loss from the sale, exchange, or involuntary conversion of property reported on Form 4797, Sales of Business Property;
2. Casualty gain or loss to business or income-producing property reported on Form 4664, Casualties and Thefts;
3. Ordinary income from the disposition of property not already taken into account in either (2) above or on any other line on Form 6251, such as a disqualifying disposition of stock acquired in a prior year by exercising an incentive stock option; and
4. Capital gain or loss (including any carryover that is different for the AMT) reported on Schedule D (Form 1040), Capital Gains and Losses.

First figure any ordinary income adjustment related to (3) above. Then, refigure Form 4684, Form 4797, and Schedule D for the AMT, if applicable, by taking into account any adjustments you made this year or in previous years that affect your basis or otherwise result in a different amount for the AMT.

If you have a capital loss after refiguring Schedule D for the AMT, apply the $3,000 capital loss limitation separately to the AMT loss. Because the amount of your gains and losses may be different for the AMT, the amount of any capital loss carryover also may be different for the AMT. See the example on this page. To figure your AMT capital loss carryover, fill out an AMT Capital Loss Carryover Worksheet in the Schedule D instructions.

For each of the four items listed above, figure the difference between the amount included in taxable income for the regular tax and the amount included in income for the AMT. Treat the difference as a negative amount if (a) both the AMT and regular tax amounts are zero or more and the AMT amount is less than the regular tax amount or (b) the AMT amount is less than the regular tax amount in a smaller loss or zero or more.

Enter on line 16 the combined adjustments for the four items above. Example. On March 13, 2004, Victor Ash, a single taxpayer, paid $20,000 to exercise an incentive stock option (which was granted to him on January 2, 2003) to buy 200 shares of stock worth $200,000. The $160,000 difference between his cost and the value of the stock at the time he exercised the option is not taxable for the regular tax. His regular tax basis in the stock at the end of 2004 is $200,000. For the AMT, however, Ash must increase the $160,000 with his 2004 AMT as an adjustment on his 2004 Form 6251. His AMT basis in the stock at the end of 2004 is $230,000.

On January 20, 2005, Ash sold 100 of the shares for $75,000. Because Ash did not hold these shares more than 1 year, they are a disqualifying disposition. For the regular tax, Ash has ordinary income of $85,000 (proceeds minus his $10,000 basis in the 100 shares). Ash has no capital gain or loss for the regular tax resulting from the sale. For the AMT, Ash has no ordinary income, but a short-term capital loss of $20,000 (proceeds minus his $100,000 AMT basis in the 100 shares).

On April 21, 2005, Ash sold the other 100 shares for $60,000. Because he held the shares for more than 1 year, the sale is a disqualifying disposition. For the regular tax, Ash has a long-term capital gain of $50,000 (proceeds minus his regular tax basis of $10,000). For the AMT, Ash has a long-term capital loss of $40,000 (proceeds minus his AMT basis of $100,000).

Ash has no other sales of stock or other capital assets for 2005. Ash enters a total negative adjustment of $118,000.
on line 16 of his 2005 Form 6251, figured as follows:

- Ash figures a negative adjustment of $65,000 for the difference between the $65,000 of regular tax ordinary income and the $0 of AMT ordinary income for the first sale.
- For the regular tax, Ash has $50,000 capital gain net income reported on Schedule D for the second sale. For the AMT, Ash has a $28,000 short-term capital loss from the first sale, and a $40,000 long-term capital loss from the second sale, resulting in a net capital loss of $65,000 for the AMT. However, only $3,000 of the $65,000 net capital loss is allowed for 2005 for the AMT. The difference between the regular tax Schedule D gain of $50,000 and the $3,000 loss allowed for the AMT results in a $53,000 negative adjustment to include on line 16.

Ash has an AMT capital loss carryover from 2005 to 2006 of $62,000, of which $22,000 is short-term and $40,000 is long-term. If he has no other Schedule D transactions for 2006, his adjustment reported on line 16 of his 2005 Form 6251 would be reduced to $(3,000), the amount of his capital loss limitation for 2006.

Line 17—Post-1986 Depreciation

This section describes when depreciation must be refrigured for the AMT and how to figure the amount to enter on line 17. Do not use line 17 for depreciation related to the following:

- Employee business expenses claimed on line 20 of Schedule A (Form 1040). Take this adjustment into account on line 5.
- Passive activities. Take this adjustment into account on line 18.
- An activity for which you are not at risk or income or loss from a partnership or an S corporation if the basis limitations apply. Take this adjustment into account on line 18.
- A tax shelter farm activity. Take this adjustment into account on line 26.

What Depreciation Must Be Refrigured for the AMT?

Generally, you must refrigure depreciation for the AMT, including depreciation allocable to inventory costs, for:

- Property placed in service after 1998 that is depreciated for the regular tax using the 200% declining balance method (generally 5-, 5-, 10-, and 15-year property under the modified accelerated cost recovery system (MACRS), except for qualified property eligible for the special depreciation allowance (see below));
- Section 1250 properly placed in service after 1998 that is not depreciated for the regular tax using the straight line method; and
- Tangible property placed in service after 1986 and before 1999. (If the transitional election was made under section 203(a)(1)(B) of the Tax Reform Act of 1986, this rule applies to property placed in service after July 31, 1986.)

What Depreciation Is Not Refrigured for the AMT?

Do not refrigure depreciation for the AMT for the following:

- Nonresidential real property with a class life of 27.5 years or more placed in service after 1988 that is depreciated for the regular tax using the straight line method.
- Other section 1250 property placed in service after 1998 that is depreciated for the regular tax using the straight line method.
- Property (other than section 1250 property) placed in service after 1998 that is depreciated for the regular tax using the 150% declining balance method or the straight line method.
- Property for which you elected to use the alternative depreciation system (ADS) of section 168(g) for the regular tax.
- Property that is qualified property eligible for the special depreciation allowance under sections 168(k), 1400L(h) (in the case of qualified New York Liberty Zone property), or 1400N(d) (in the case of qualified Gulf Opportunity Zone property) if the depreciable basis of the property for the AMT is the same as for the regular tax. The special allowance is deductible for the AMT, and there also is no adjustment required for any depreciation figured on the remaining basis of the qualified property if the depreciable basis of the property for the AMT is the same as for the regular tax. Property for which an election is in effect to not have the special allowances apply is not qualified property. See sections 168(k) for the definition of qualified property, 1400L(h)(2) for the definition of qualified New York Liberty Zone property, and 1400N(d)(2) for the definition of qualified Gulf Opportunity Zone property.
- Any part of the cost of any property for which you made the election under section 179 to treat the cost of the property as a deductible expense. The reduction to the depreciable basis of section 179 property by the amount of the section 179 expense deduction is the same for the regular tax and the AMT.
- Motion picture films, videotapes, or sound recordings.
- Property depreciated under the unit-of-production method or any other method not expressed in a term of years.
- Qualified Indian reservation property.
- Qualified revitalization expenditures for a building for which you elected to claim the commercial revitalization deduction under section 1400T.
- A natural gas gathering line placed in service after April 11, 2008.

How Is Depreciation Refrigured for the AMT?

Property placed in service before 1989. Refrigure depreciation for the AMT using ADS, with the same convention used for the regular tax. See the following table for the method and recovery period to use.

<table>
<thead>
<tr>
<th>Property Placed in Service Before 1999</th>
<th>IF the property is...</th>
<th>THEN use the...</th>
</tr>
</thead>
<tbody>
<tr>
<td>section 1250 property.</td>
<td>straight line method over 40 years.</td>
<td></td>
</tr>
<tr>
<td>tangible property (other than section 1250 property) depreciated using straight line method for the regular tax.</td>
<td>straight line method over the property's AMT class life.</td>
<td></td>
</tr>
<tr>
<td>any other tangible property.</td>
<td>150% declining balance method, switching to straight line method the first year it gives a larger deduction, over the property's AMT class life.</td>
<td></td>
</tr>
</tbody>
</table>

Property placed in service after 1989. Use the same convention and recovery period used for the regular tax. For property other than section 1250 property, use the 150% declining balance method, switching to straight line the first year it gives a larger deduction. For section 1250 property, use the straight line method.

How is the AMT Class Life Determined?

The class life used for the AMT is not necessarily the same as the recovery period used for the regular tax. The class lives for the AMT are listed in Rev. Proc. 87-56, 1987-2 C.B. 674, and in Pub. 946, How To Depreciate Property. Use 12 years for any tangible personal property not assigned a class life.

See Pub. 946 for tables that may be used to figure AMT depreciation, Rev. Proc. 69-15, 1969-1 C.B. 816, has special rules for short years and for property disposed of before the end of the recovery period.

How is the Adjustment Figured?

Subtract the AMT deduction for depreciation from the regular tax deduction and enter the result. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

In addition to the AMT adjustment to your deduction for depreciation, you must also adjust the amount of depreciation that was capitalized, if any, to account for the difference between the rules for the regular tax and the AMT. Include on this line the current year adjustment to taxable income, if any, resulting from the difference.

Line 18—Passive Activities

Your passive activity gains and losses must be refrigured for the AMT by taking into account all the adjustments for preferences and any AMT prior year unallowed losses that apply to that activity. You may fill out a second Form 8824, Passive Activity Loss Limitations, and the other forms or schedules on which your passive activities are reported, to determine your passive activity loss
allowed for the AMT, but do not file the second set of forms and schedules with your tax return.

**Example.** You are a partner in a partnership and the Schedule K-1 (Form 1065) you received shows the following.
- A passive activity loss of $4,129.
- A depreciation adjustment of $500 on post-1986 property, and
- An adjustment of $226 on the disposition of property.

Because the two adjustments above are not allowed for the AMT, you must first reduce the passive activity loss by those amounts. The result is a passive activity loss for the AMT of $3,400. You then enter this amount on the AMT Form 6562 and refigure the allowable passive activity loss for the AMT.

**Tip**
The amount of any AMT passive activity loss that is not deductible and is carried forward is likely to differ from the regular tax amount. If so, keep adequate records for both the AMT and regular tax.

Enter the difference between the amount reported on Schedule C, C-EZ, E, F or Form 4835, Rental Income and Expenses, for the AMT and the regular tax amount. If (a) the AMT loss is more than the regular tax loss, (b) the AMT gain is less than the regular tax gain, or (c) you have an AMT loss and a regular tax gain, enter the adjustment as a negative amount.

Enter any adjustment for amounts reported on Schedule D, Form 4684, or Form 4797 for the activity on line 16 instead of line 18. See the instructions for line 16.

**Pubically Traded Partnership (PTP)**
If you had a loss from a PTP, refigure the loss using any AMT adjustments and preferences and any AMT prior year unallowed losses.

**Tax Shelter Passive Farm Activities**
Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments and preferences and any AMT prior year unallowed losses. If the amount is a gain, include it on the AMT Form 8582. If the amount is a loss, do not include it on the AMT Form 6562. Carry the loss forward to 2006 to see if you have a gain or loss from tax shelter passive farm activities for 2006.

**Insolvency**
If at the end of the tax year your liabilities exceed the fair market value of your assets, increase your passive activity loss allowed by that excess (but not by more than your total loss). See section 58(C)(1).

**Line 19—Loss Limitations**
For passive activities, see the line 18 instructions instead. For tax shelter farm activities (that are not passive), see the line 25 instructions on page 6.

Refigure your gains and losses from activities for which you are not at risk and basis limitations applicable to partnerships and S corporations by taking into account all AMT adjustments and preferences that apply. See sections 59(h), 465, 704(d), and 1366(d).

Enter the difference between the amount that would be reported for the activity on Schedule C, C-EZ, E, F or Form 4835 (for the AMT and the regular tax amount. If (a) the AMT loss is more than the regular tax loss, (b) the AMT gain is less than the regular tax gain, or (c) you have an AMT loss and a regular tax gain, enter the adjustment as a negative amount.

The AMT amount of any gain or loss from activities for which you are at risk is likely to differ from the regular tax amount. Your AMT basis in partnerships and S corporations is likely to differ from your regular tax basis. Therefore, keep adequate records for both the AMT and regular tax.

Enter any adjustment for amounts reported on Schedule D, Form 4684, or Form 4797 for the activity on line 16 instead.

**Line 20—Circulation Costs**
Note. Do not make this adjustment for costs for which you elected the optional 3-year write-off for the regular tax.

Circulation costs (expenditures to establish, maintain, or increase the circulation of a newspaper, magazine, or other periodical) deducted in full for the regular tax in the year they were paid or incurred must be capitalized and amortized over 3 years for the AMT. Enter the difference between the regular tax and AMT deduction, if the AMT deduction is greater, enter the difference as a negative amount.

If you had a loss on property for which circulation costs have not been fully amortized for the AMT, your AMT deduction is the smaller of (a) the amount of the loss allowable for the costs had they remained capitalized or (b) the remaining costs to be amortized for the AMT.

**Line 21—Long-Term Contracts**
For the AMT, you generally must use the percentage-of-completion method, described in section 466(b) to determine your income from any long-term contract (defined in section 466(b)). However, this rule does not apply to any home construction contract (as defined in section 466(c)(6)). For contracts excepted from the percentage-of-completion method for the regular tax by section 466(c)(1), you must use the simplified procedures for allocating costs outlined in section 466(c)(3) to determine the percentage of completion.

Enter the difference between the AMT and regular tax income. If the AMT income is smaller, enter the difference as a negative amount.

**Note.** If you are required to use the percentage-of-completion method for the regular tax or the AMT, you may owe or be entitled to a refund of interest for the tax year the contract is completed or adjusted. For details, see Form 8610, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts.

**Line 22—Mining Costs**
Note. Do not make this adjustment for costs for which you elected the optional 10-year write-off for the regular tax.

Mining exploration and development costs deducted in full for the regular tax in the tax year they were paid or incurred must be capitalized and amortized over 10 years for the AMT. Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

If you had a loss on property for which mining costs have not been fully amortized for the AMT, your AMT deduction is the smaller of (a) the loss allowable for the costs had they remained capitalized or (b) the remaining costs to be amortized for the AMT.

**Line 23—Research and Experimental Costs**
Note. Do not make this adjustment for costs paid or incurred in connection with an activity in which you materially participated under the passive activity rules or for costs for which you elected the optional 10-year write-off for the regular tax.

Research and experimental costs deducted in full for the regular tax in the tax year they were paid or incurred must be capitalized and amortized over 5 years for the AMT. Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

If you had a loss on property for which research and experimental costs have not been fully amortized for the AMT, your AMT deduction is the smaller of (a) the loss allowable for the costs had they remained capitalized or (b) the remaining costs to be amortized for the AMT.

**Line 24—Installment Sales**
The installment method does not apply for the AMT to any nondealer disposition of property after August 16, 1986, but before January 1, 1987, if an installment obligation to which the proportionate disallowance rule applies is issued from the disposition. Enter on line 24 the amount of installment sale income reported for the regular tax.

**Line 25—Intangible Drilling Costs (IDCs)**
Note. Do not make this adjustment for costs for which you elected the optional 60-month write-off for the regular tax.

IDCs from oil, gas, and geothermal wells are a preference to the extent that
the excess IDCs exceed 65% of the net income from the wells. Figure the preference for all oil and gas properties separately from the preference for all geothermal properties.

Excess IDCs. Figure excess IDCs as follows.

Step 1. Determine the amount of your IDCs allowed for the regular tax under section 263(c), but do not include any section 263(c) deduction for nonproductive wells.

Step 2. Subtract the amount that would have been allowed had you amortized these IDCs over a 120-month period starting with the month the well was placed in production. If you prefer not to use the 120-month period, you can elect to use any method that is permissible in determining cost depletion.

Net income. Determine the net income by reducing the gross income that you received or accrued during the tax year from oil or gas producing wells by the deductions allocable to those wells (reduced by the excess IDCs). When figuring net income, use only income and deductions allowed for the AMT.

Exception. The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers (that is, not integrated oil companies as defined in section 291(b)(4)). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete Form 6251 through line 26, including the IDC preference, and combine lines 1 through 26. If the amount of the IDC preference exceeds 40% of the total of lines 1 through 26, enter the excess on line 25 (your benefit from this exception is limited). Otherwise, do not enter an amount on line 25 (your benefit from this exception is not limited).

Line 26—Other Adjustments. Enter on line 26 the total of any other adjustments that apply to you, including the following.

Depreciation Figured Using Pre-1987 Rules. This preference generally only applies to property placed in service before 1987, but depreciated using pre-1987 rules due to transitional provisions of the Tax Reform Act of 1986.

For the AMT, you must use the straight line method to figure depreciation on real property for which accelerated depreciation was determined using pre-1987 rules. Use a recovery period of 19 years for 19-year real property and 15 years for 15-year real property. For leased personal property other than recovery property, enter the amount by which your regular tax depreciation exceeds the depreciation allowable using the straight line method for a half-year convention, no salvage value, and a property period of 15 years (22 years for 15-year public utility property).

The excess of the regular tax depreciation over the AMT depreciation separately for each property and include on line 26 only positive amounts.

Patron's Adjustment. Distributions you received from a cooperative may be includible in income. Unless the distributions are nontaxable, include on line 26 the total AMT patronage dividend adjustment reported to you by the cooperative, such as on Form 1099-PATR.

Pollution Control Facilities. The section 169 election to amortize the basis of a certified pollution control facility over a 60-month or 64-month period is not available for the AMT. For facilities placed in service before 1999, figure the AMT deduction using ADS. For facilities placed in service after 1998, figure the AMT deduction under MACRS using the straight line method. Enter the difference between the regular tax and AMT deduction. If the AMT amount is greater, enter the difference as a negative amount.

Tax Shelter Farm Activities. Figure this adjustment only if you have a gain or loss from a tax shelter farm activity (as defined in section 55(a)(2)) that is not a passive activity. If the activity is passive, you must include it with your other passive activities on line 18.

Refigure all gains and losses you reported for the regular tax from tax shelter farm activities by taking into account any AMT adjustments and preferences. Determine your tax shelter farm activity gain or loss for the AMT using the same rules you used for the regular tax with the following modifications. No refuged loss is allowed, except to the extent you are reimbursed (see section 916(c)(4)). A refuged gain may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any refuged gain must be suspended and carried forward indefinitely until (a) you have a gain in a subsequent tax year from that same activity or (b) you dispose of the activity.

Enter the difference between the amount that would be reported for the activity on Schedule E or F or Form 4835 for the AMT and the regular tax amount. If (a) the AMT gain is more than the regular tax loss, (b) the AMT gain is less than the regular tax gain, or (c) you have an AMT loss and a regular tax gain, enter the adjustment as a negative amount.

Enter any adjustment for amounts reported on Schedule D, Form 4684, or Form 4797 for the activity on line 16 instead.

Charitable Contributions of Certain Property. If you made a charitable contribution of property to which section 170(c) applies and you had a different basis for AMT purposes, you may have to make an adjustment. See section 170(e) for details.

Alcohol and Biodiesel Fuels Credits. If your taxable income includes an amount from the alcohol fuel credit or the biodiesel fuels credit under section 67, include that amount as a negative amount on line 26.

Related Adjustments. If you have an entry on line 6 because you deducted investment interest allocable to an interest in a trade or business, or on line 9, 12, 13, or 15 through 26, or you have any amount included on line 26 from pre-1987 depreciation, patron's adjustment, pollution control facilities, or tax shelter farm activities, you may have to refigure any item of income or deduction based on a lifetime income other than AGI or modified AGI.

AFFECTED ITEMS INCLUDE THE FOLLOWING:

• Section 179 expense deduction (Form 4562, line 12),
• Expenses for business or rental use of your home,
• Conservation expenses (Schedule F, line 14),
• Taxable IRA distributions (Form 1040, line 150), if prior year IRA deductions were different for the AMT and the regular tax,
• Self-employed health insurance deduction (Form 1040, line 23),
• Self-employed SEP, SIMPLE, and qualified plans deduction (Form 1040, line 23),
• IRA deduction (Form 1040, line 32), affected by the earned income limitation of section 215(b)(1)(B).

Figure the difference between the AMT and regular tax amount for each item. Combine the amounts for all your related adjustments and include the total on line 26. Keep a copy of all computations for your records, including any AMT carryover or carryback amounts.

Do not include on line 26 any adjustment for an item you already refigured on another line of this form (for example, line 9).

Example. On your Schedule C (Form 1040) you have a net profit of $9,000 before figuring your section 179 deduction (and you do not report any other business income on your return). During the year, you purchased an asset for $10,000 for which you elect to take the section 179 deduction. You also have an AMT depreciation adjustment of $700 for other assets depreciated on your Schedule C.

Your section 179 deduction for the regular tax is limited to your net profit (before any section 179 deduction) of $9,000. The $1,000 excess is a section
179 deduction carryforward for the regular tax.

For the AMT, your net profit is $9,700, and you are allowed a section 179 deduction of $9,700 for the AMT. You have a section 179 deduction carryforward of $300 for the AMT.

You include a $700 negative adjustment on line 26 because your section 179 deduction for the AMT is $700 greater than your allowable regular tax deduction. In the following year, when you use the $1,000 regular tax carryforward, you will have a $700 positive related adjustment for the AMT because your AMT carryforward is only $300.

Line 27—Alternative Tax Net Operating Loss Deduction (ATNOLD)
The ATNOLD is the sum of the alternative tax net operating loss (ATNOL) carrybacks and carryforwards to the tax year, subject to the limitation explained below. Figure your ATNOLD as follows.

Your ATNOL for a loss year is the excess of the deductions allowed for figuring AMTI (excluding the ATNOL) over the income included in AMTI. Figure this excess with the modifications in section 172(d), taking into account the adjustments in sections 56 and 58 and preferences in section 57 (that is, the section 172(d) modifications must be separately figured for the ATNOL). For example, the limitation of nonbusiness deductions to the amount of nonbusiness income must be separately figured for the ATNOL, using only nonbusiness income and deductions that are included in AMTI.

Your ATNOLD may be limited. To figure the ATNOLD limitation, you must first figure your AMTI without regard to the ATNOLD and any domestic production activities deduction. To do this, first figure a tentative amount for line 9 by treating line 27 as if it were zero. Next, figure a tentative total of lines 1 through 26 using the tentative line 9 amount and treating line 27 as if it were zero. Add any domestic production activities deduction to this tentative total. Your ATNOLD limitation is 90% of the result.

However, if an ATNOLD that is carried back to the tax year is attributable to qualified Gulf Opportunity Zone losses as defined in section 1400N(k)(2), the ATNOLD for the tax year is limited to the sum of:
1. The smaller of:
   a. The sum of the ATNOLD carrybacks and carryforwards to the tax year attributable to net operating losses other than qualified Gulf Opportunity Zone losses, or
   b. Ninety percent of AMTI for the tax year (figured without regard to the ATNOLD and any domestic production activities deduction, as discussed above), plus
2. The smaller of:
   a. The sum of the ATNOLD carrybacks to the tax year attributable to qualified Gulf Opportunity Zone losses, or
   b. AMTI for the tax year (figured without regard to the ATNOLD and any domestic production activities deduction, as discussed above) reduced by the amount determined under (1), above.

Enter on line 27 the smaller of the ATNOLD or the ATNOLD limitation.

Any ATNOLD not used may be carried back 2 years or forward up to 20 years (15 years for less years beginning before 1998). In some cases, the carryback period is longer than 2 years; see sections 172(b) and 1400N(x) for details. The treatment of ATNOLs does not affect your regular tax NOL.

Note: If you elected under section 172(b)(5) to forego the carryback period for the regular tax, the election also applies for the AMT.

Exemption Worksheet—Line 29

Earned Income includes wages, tips, and other amounts received for personal services performed. If the child is engaged as a sole proprietor or as a partner in a trade or business in which both personal services and capital are material income-producing factors, earned income also includes a reasonable allowance for compensation for personal services rendered by the child, but not more than 30% of his or her share of the net profits from that trade or business (after subtracting the deduction for one-half of self-employment tax). However, the 30% limit does not apply if there are no net profits from the trade or business. If capital is not an income-producing factor and the child's personal services produced the business income, all of the child's gross income from the trade or business is considered earned income.

Line 32—Alternative Minimum Tax Foreign Tax Credit (AMTFTC)

To see if you need to figure your AMTFTC, fill in Form 6251, line 34, as instructed (you will first need to figure your foreign tax credit for
the regular tax and complete Form 1040, line 47. If the amount on line 34 is greater than or equal to the amount on line 31, you do not owe the AMT. Enter -0- on line 36 and see Who Must File on page 1 to find out if you must attach Form 6251 to your return. However, even if you do not owe the AMT, you may need to complete line 52 to see if you have an AMTFTC carryback or carryforward to other tax years.

If you made an election to claim the foreign tax credit on Form 1040, line 25, your AMTFTC is the same as the foreign tax credit on Form 1040, line 47. Enter that amount on Form 6251, line 52. Otherwise, your AMTFTC is your foreign tax credit refuged as follows.

Step 1. Use a separate AMT Form 1116 for each separate category of income specified at the top of Form 1116. While “AMT” in the top margin of each Form 1116.

When applying the separate categories of income, use the applicable AMT rate instead of the regular tax rate to determine if any income is “high-taxed.”

Step 2. If you previously made or are making the simplified limitation election (see page 9), skip Part I and enter on the AMT Form 1116, line 16, the same amount you entered on that line for the regular tax. If you did not complete Form 1116 for the regular tax and you previously made or are making the simplified limitation election, complete Part I and lines 14 through 16 of the AMT Form 1116 using regular tax amounts.

If the election does not apply, complete Part I using only income and deductions that are allowed for the AMT and deductible to sources outside the United States. If you have any foreign source qualified dividends or foreign source capital gains (including any foreign source capital gain distributions) or losses, use the instructions under Step 3 to determine whether you must make adjustments to these amounts before you include the amounts on line 1 or line 5 of the AMT Form 1116.

Step 3. Follow the instructions below, if applicable, to determine the amount of foreign source qualified dividends, capital gain distributions, and other capital gains and losses to include on line 1 and line 5 of the AMT Form 1116.

Foreign qualified dividends. You must adjust your foreign source qualified dividends before you include these amounts on line 1 of the AMT Form 116 if:

- Line 53 of Form 6251 is smaller than line 54, and
- Line 41 of Form 6251 is greater than zero.

But you do not need to make any adjustments if:

- You qualified for the adjustment exception under Qualified Dividends and Capital Gains Tax Workshet (Individuals) or Adjustments to foreign qualified dividends under Schedule D Filers in the Form 1116 instructions when you completed your regular tax Form 1116, and
- Line 41 of Form 6251 is not more than $175,000 ($87,500 if married filing separately).

To adjust your foreign source qualified dividends, multiply your foreign source qualified dividends in each separate category by 0.5357. Include the results on line 1 of the applicable AMT Form 1116. But do not adjust the amount of any foreign source qualified dividend you elected to include on line 4g of AMT Form 4922.

Individuals with capital gain distributions only. If you have no capital gains or losses other than capital gain distributions from box 2a of Form(s) 1099-DIV or substitute statement(s), you must adjust the foreign source capital gain distributions if you are required to adjust your foreign source qualified dividends under the rules just described or you would be required to adjust your foreign qualified dividends if you had any.

To adjust your foreign source capital gain distributions, multiply your foreign source capital gain distributions in each separate category by 0.5357. Include the results on line 1 of the applicable AMT Form 1116. But do not adjust the amount of any foreign source capital gain distribution you elected to include on line 4g of AMT Form 4922.

Individuals with other capital gains or losses. If any capital gain or loss is different for the AMT, use amounts as refinuged for the AMT to complete this step. Use Worksheet A in the instructions for Form 1116 to determine if you must make adjustments to your foreign source capital gains or losses (as refinuged for the AMT) if:

- You have foreign source qualified gains and losses (as refinuged for the AMT) in no more than two separate categories, and
- Either you did not complete Part III of Form 6251 or you were not required to make adjustments to your foreign source qualified dividends under the rules described above (or you would not have been required to make those adjustments if you had foreign source qualified dividends).

Use Worksheet B if you:

- Cannot use Worksheet A,
- Have foreign source capital gains and losses in no more than two separate categories, and
- Did not have any item of unrecaptured section 1250 or 1259 real property gain or loss for either regular tax or AMT.

Instructions for Workshets A and B. When you complete Worksheet A or Worksheet B, use foreign source capital gains and losses, as refinuged for the AMT if necessary, and do not use any foreign source capital gains you elected to include on line 4g of AMT Form 4922 if you are required to complete a Schedule D for the AMT, use line 16 of that AMT Schedule D to complete line 3 of Worksheet A or line 4 of the Line 2 Worksheet for Worksheet B. Use 0.5357 instead of 0.4286 to complete lines 11, 13, 18, and 16 of Worksheet B and to complete Steps 4 and 5 of the Line 15 Worksheet for Worksheet B.

If you do not qualify to use Worksheet A or Worksheet B, use the instructions for Capital Gains and Losses in Pub. 54 to determine the adjustments you make.

Step 4. Complete Part II and lines 9 through 13 of the AMT Form 1116. Use your AMTFTC carryback, if any, on line 10.

Step 5. If the simplified limitation election does not apply, complete lines 14 through 16 of the AMT Form 1116.

Step 6. If you did not complete Part III of Form 6251, enter the amount from line 28 of Form 6251 on line 17 of the AMT Form 1116 and go to Step 7 on this page. If you completed Part III of Form 6251, you must complete, for the AMT, the Worksheet for Line 17 in the Form 1116 instructions to determine the amount to enter on line 17 of the AMT Form 1116 if:

- Line 53 of Form 6251 is smaller than line 54, and
- Line 41 of Form 6251 is greater than zero.

But you do not need to complete the Worksheet for Line 17 if:

- You qualified for the adjustment exemption under Qualified Dividends and Capital Gain Tax Worksheet (Individuals) or Adjustments to foreign qualified dividends under Schedule D Filers in the Form 1116 instructions when you completed your regular tax Form 1116, and
- Line 41 of Form 6251 is not more than $175,000 ($87,500 if married filing separately).

If you do not need to complete the Worksheet for Line 17, enter the amount from line 28 of Form 6251 on line 17 of the AMT Form 1116.

Instructions for AMT Worksheet for Line 17. Follow these steps to complete, for the AMT, the Worksheet for Line 17 in the Form 1116 instructions.

1. Enter the amount from Form 6251, line 28, on line 1 of the worksheet.
2. Skip lines 2 and 3 of the worksheet.
3. Enter the amount from Form 6251, line 51, on line 4 of the worksheet.
4. Multiply line 4 of the worksheet by 0.1071 (instead of 0.2567). Enter the result on line 5 of the worksheet.
5. Enter the amount from Form 6251, line 49, on line 6 of the worksheet.
6. Multiply line 6 of the worksheet by 0.4543 (instead of 0.5714). Enter the result on line 7 of the worksheet.
7. Complete lines 8 and 9 of the worksheet as instructed on the worksheet.
8. Enter the amount from Form 6251, line 31, on the AMT Form 1116, line 19. Complete lines 10, 20, and 21 of the AMT Form 1116.
Step 6. Complete Part IV of the first AMT Form 1116 only.

You can use your regular tax income for Form 1116, Part I, instead of figuring your AMT income in Part II. However, you must make the election for the first AMT tax year after 1997 for which you claim an AMT. If you do not make the election for that year, you may not make it for a later year. Once made, the election applies to all later tax years and may be revoked only with IRS consent.

Line 34
If you used Schedule J to figure your tax on Form 1040, line 44, you must figure that tax (including any tax from Form 8814) without using Schedule J before completing this line. This is only for Form 6251; do not change the amount on Form 1040, line 44.

Part III—Tax Computation Using Maximum Capital Gains Rates

Lines 37, 38, and 39
You generally can fill out lines 37, 38, and 39 using the amounts from the Qualified Dividends and Capital Gains Tax Worksheet or the Schedule D Tax Worksheet, whichever applies, and Schedule D (Form 1040), if you completed Schedule D. But do not use those amounts if any of the following statements apply.

1. Any gain or loss on Schedule D is different for the AMT (for example, because of a different basis for the AMT due to depreciation adjustments, an incentive stock option adjustment, or a different AMT capital loss carryover from 2004).
2. You did not complete either the Qualified Dividends and Capital Gain Tax Worksheet or the Schedule D Tax Worksheet because Form 1040, line 43, is zero.
3. You received a Schedule K-1 (Form 1041) that shows an amount in box 12 with code B, C, D, E, or F. If this applies, see Beneficiaries of estates or trusts on this page. Then read the following instructions.

If (1) or (3) above applies, complete lines 1 through 20 of an AMT Schedule D by refiguring the amounts of your gains and losses for the AMT. Next, if (1), (2), or (3) above applies, complete lines 2 through 6 of an AMT Qualified Dividends and Capital Gain Tax Worksheet or lines 2 through 13 of an AMT Schedule D Tax Worksheet, whichever applies. (See line 20 of your AMT Schedule D. If you completed one, to determine which worksheet applies.) Complete line 5 of the AMT Qualified Dividends and Capital Gain Tax Worksheet or lines 3 and 4 of the Schedule D Tax Worksheet, whichever applies, using your AMT Form 4952. Use amounts from Schedule D or the AMT Schedule D, whichever applies, and either the AMT Qualified Dividends and Capital Gain Tax Worksheet or the AMT Schedule D Tax Worksheet, whichever applies, to complete lines 37, 38, and 39 of Form 6251. Keep the AMT Schedule D and applicable worksheet for your records, but do not attach the AMT Schedule D to your tax return.

Note. Do not decrease your section 1202 exclusion by the amount, if any, on line 12.

Beneficiaries of estates or trusts. If you received a Schedule K-1 (Form 1041) that shows an amount in box 12, follow the instructions in the following table.

<table>
<thead>
<tr>
<th>Line 12</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>B</td>
<td>line 2 of an AMT Qualified Dividends and Capital Gain Tax Worksheet or an AMT Schedule D Tax Worksheet, whichever applies.</td>
</tr>
<tr>
<td>C</td>
<td>line 5, column (f), of an AMT Schedule D.</td>
</tr>
<tr>
<td>D</td>
<td>line 12, column (f), of an AMT Schedule D.</td>
</tr>
<tr>
<td>E</td>
<td>line 11 of an AMT Qualified Dividends and Capital Gain Tax Worksheet.</td>
</tr>
<tr>
<td>F</td>
<td>line 4 of an AMT Qualified Dividends and Capital Gain Worksheet.</td>
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</table>

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103. The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.
APPENDIX C

UNITED STATES DEPARTMENT OF COMMERCE CHART
## States Ranked by Total Taxes and Per Capita Amount: 2004

(Amounts are in thousands. Per capita amounts are in dollars)

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Total tax</th>
<th>State</th>
<th>Total tax per capita</th>
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<td>Amount</td>
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REFERENCES


