

IS THE ALTERNATIVE MINIMUM TAX COMING AFTER YOU?

The Alternative Minimum Tax, or "AMT," was designed to prevent the wealthiest Americans from completely escaping federal income taxation through excessive deductions. Then something scary happened along the way.

First introduced in 1969 as the "minimum income tax" and revised in 1978, the AMT initially applied to only 15,000-20,000 American households.¹ But the tax wasn't indexed for inflation. In 2004, an estimated 3.8 million taxpayers will pay the tax.² And if Congress doesn't enact reforms, by 2010 a whopping 38 million families could get hit by the AMT!³

Here's how the AMT works. First, taxpayers calculate their regular income tax. Second, they use an IRS worksheet to determine whether the AMT applies to their situation. Third, another IRS form is used to recalculate taxable income under AMT rules, which may reduce or even eliminate certain deductions and result in higher taxes.

Finally, the regular income tax is compared to the tax determined by AMT rules and taxpayers then pay whichever is higher.

How can you escape the clutches of the AMT? Unfortunately, it's not easy. With the AMT looming for more and more Americans, careful tax preparation is paramount. Of course, a letter of concern to your Congressional representatives wouldn't hurt either! Tax matters are complex, so be sure to seek the advice of a tax professional.

Some options that may help avoid the AMT include:

- Exercise stock options sooner rather than later or stagger the exercise over several years
 - Defer a year-end bonus from this year into next year
 - Sell any investment losers to offset taxable gains
 - Lower your taxable income
 - Avoid tax-free municipal securities described as "private activity bonds," which are tax-free under the regular system but taxable under AMT rules
- 1) *"The Alternative Minimum Tax for Individuals: A Growing Burden," U.S. Congress Joint Economic Committee Study, May 2001*
 - 2) *"Bush Report: AMT, Expiring Tax Cuts Are Driving Reform," The Wall Street Journal, February 17, 2005*
 - 3) *"White House Puts Cost of Fixing AMT at \$1 Trillion," The Wall Street Journal, February 18, 2005*

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