

The SCOPE™ Report  
April 2021

## Why it's important to start planning early for the Alternative Minimum Tax (AMT)

**TABLE 1**

### Tax Units Affected by the AMT

Share of total, by expanded cash income level, calendar years 2017–2026



Expanded cash income (2019\$) <sup>a</sup>	2017: Pre-TCJA	2019	2025	2026
Less than \$50,000	*	*	*	*
\$50,000 – \$75,000	*	*	*	0.1%
\$75,000 – \$100,000	0.2%	*	*	0.3%
\$100,000 – \$200,000	1.6%	*	*	2.2%
\$200,000 – \$500,000	23.3%	0.2%	0.2%	23.5%
\$500,000 – \$1,000,000	63.8%	1.8%	1.5%	63.8%
More than \$1,000,000	24.2%	12.5%	8.2%	19.8%
All tax units	3.0%	0.1%	0.1%	3.7%

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

**Notes:** Includes AMT liability on Form 6251, lost credits, and the value of reduced deductions. Tax units that are dependents of other tax units are excluded from this analysis.

(a) Tax units with negative adjusted gross income are excluded from their respective income classes but are included in the totals.

The Alternative Minimum Tax (AMT) or “stealth tax” was deliberately designed to tax the rich in 1969. This is because, in the 20th century, a vast group of the wealthy living in America were able to avoid paying taxes through various exemptions and tax deductions. Regular taxes were lower for those who earned more, so mandating this tax was aimed to counter high income earners who ended up with no federal income tax liability. AMT sets a limit on the amount these benefits can be used to reduce total tax. (IRS, 2020).

The AMT has its own set of rates and rules for deductions, though, quite limiting. It works as a filter to prevent the 'immune' from escaping tax. Individuals who are subject to the AMT are forced to calculate their tax liabilities twice: the first time under standard tax regulations and a second time with the AMT. Under the AMT, various itemized deductions such as state and local tax are prohibited. (Tax Foundation, 2020) (CNBC, 2020).

From 2018 through 2020, the Tax Cuts and Jobs Act shielded many Americans from the AMT, which AMT squeezed just [0.1 percent of households](#) overall. Only 0.2 percent of households with income between \$200,000 and \$500,000, 1.8 percent of those with incomes between \$500,000 and \$1 million, and 12.5 percent of households with incomes greater than \$1 million were included. (Tax Policy Center, 2020).

However, this shield will only last until 2026, when the AMT comes back with a bang. About a quarter of those in the income bracket between \$200,000 to \$500,000, and over 60% of those who earn between \$500,000 and \$1 million will see a significant increase in their taxes. Only 20% of those with an income of over \$1 million will be impacted by AMT, an illustration of how the AMT phases out once a certain threshold is met.

### *Avoiding the AMT*

Forward and strategic planning can help you and your business avoid the AMT. There are several loopholes that large companies use to avoid taxes, some shown below:

- Time capital gains
- Offshore subsidiaries
- Increased depreciation
- Industry change
- Stocks
- Professional assistance

**Time capital gains.** You may be able to delay an asset sale by holding until after the end of year, or by pocketing a sale through installments. This will extend the timeframe in which you need to pay tax for the sale once complete.

**Offshore subsidiaries.** The activity of a subsidiary will be governed by the laws of that country. Choose a country with cheap tax costs.

**Increased depreciation.** When the company spends substantially on investments, they incur 'losses', therefore, you can trick the system into thinking that expenses are greater than profit or that it is a small company.

**Industry change.** Some industries benefit from the federal tax code to receive certain tax breaks, such as oil and gas drilling, film production, video game, ethanol production, and alternative energy.

**Stocks.** Sell some stocks and share the cost of taxes (Fuhrmann, 2021).

**Professional assistance.** A certified public accountant would act as a fiduciary. He/she will be able to look forward and predict the best ways to avoid tax.

*The AMT and Marriage Penalties*

**TABLE 2**

**Tax Units Affected by the AMT**

Share of total, by filing status, calendar years 2017–2026



Filing status	2017: Pre-TCJA	2019	2025	2026
Single	0.9%	0.1%	*	1.2%
Married filing jointly	5.8%	0.2%	0.2%	7.0%
Head of household	2.0%	*	*	2.6%
Married filing separately	6.7%	0.3%	0.3%	8.2%
All tax units	3.0%	0.1%	0.1%	3.7%

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

**Notes:** Includes AMT liability on Form 6251, lost credits, and the value of reduced deductions. Tax units that are dependents of other tax units are excluded from this analysis.

\* Less than 0.05%

Marriage bonuses are offered to married couples under the regular income tax, however the AMT enforces weighty marriage penalties. AMT marriage penalties - combined with married couples with higher incomes than singles - render married couples more likely to pay the AMT. (Tax Policy Center, n.d.). In 2020, the exemption [was \\$72,900 for singles and \\$113,400 for married couples](#). (CNBC, 2020).

Note that for married couples, the AMT tax brackets remain analogous to single taxpayer's tax brackets. Regarding exemptions, married couples pay about one and a half times more than singles do. However, the 2017 Tax Cuts Jobs Act reduced AMT marriage penalties somewhat by increasing the threshold at which the exemption begins to phase out so that it is double the cost for married couples than for singles. (Tax Policy Center, 2020).

In retrospect, widening the threshold means collecting tax from a wider population, and impacting the wealthy in the higher brackets range. It would be highly recommended to prepare for the year 2026, when AMT is established to be implemented with a bang.

#### Sources

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1. Mercado, D. (2020, Mar 4). *After the tax law changes, millions of households avoided the AMT hit last year*. CNBC. <https://www.cnbc.com/2020/03/04/after-tax-changes-millions-of-households-avoided-amt-hit-last-year.html>