



1999 Income Tax School

## ALTERNATIVE MINIMUM TAX

### **Who Must File Form 6251? . . . . . 78**

Form 6251 is used to calculate and report alternative minimum tax (AMT), apply the limit on certain credits, and verify AMT eligibility.

#### **Which Taxpayers Do Not Have to File Form 6251? . . . . . 79**

Taxpayers can determine if they must file Form 6251 by applying the three tests from the instructions.

#### **Which Taxpayers Are Not Liable for AMT? . . . . . 79**

It is simpler for the practitioner doing tax planning to use shortcuts to determine if a client will be liable for AMT.

### **AMT Surprises. . . . . 81**

Because regular income taxes have decreased over the years and the AMT rate has slightly increased, more taxpayers are subject to AMT.

#### **High Personal Exemption Deductions . . . . . 81**

Taxpayers with numerous personal exemptions may be liable for the AMT even though there are no other adjustments and preferences, and they do not have a high income level.

#### **High State and Local Taxes . . . . . 85**

Taxpayers may be liable for the AMT if they live in states with high state and local taxes.

#### **Hobby Expenses . . . . . 88**

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### **Effect of Capital Gains. . . . . 90**

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#### **Spreading Capital Gains over More than One Year. . . . . 95**

Capital gains are taxed at a higher than usual rate if the effect of the capital gains causes an AMT liability.

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#### **Minimum Tax Credit Net Operating Loss Deduction . . . . . 107**

Calculating the MTCNOLD for Form 8801 is similar to the alternative tax net operating loss deduction, with the exception that only exclusion adjustments and preferences are used in the calculation.



## ALTERNATIVE MINIMUM TAX

This chapter addresses the most troublesome issues faced by tax preparers under the alternative minimum tax (AMT) rules. It begins with a discussion of who has to file Form 6251 and who does not. It discusses some AMT surprises and the effect of capital gains after the 1997 Taxpayer Relief Act. It also illustrates the effect of the AMT credit on later-year tax liability.

### WHO MUST FILE FORM 6251

Form 6251 is not only used as a means of calculating and reporting AMT liability. It is also used as a means of applying the limit on certain credits and verifying that some taxpayers are not liable for the AMT. Therefore, Form 6251 must be filed by individual taxpayers who fall into one or more of the following three groups.

#### 1. Taxpayers who have an AMT liability

The Form 6251 instructions describe these taxpayers (as well as a few that fall into group 2 below) with the following instruction:

Attach Form 6251 to your return if:

- Line 24 is greater than line 27

Line 24 is the result of applying the AMT rates to the AMT income, and line 27 is the regular tax. Therefore, taxpayers whose line 24 is greater than line 27 are those who either owe the AMT or would have owed an AMT if they did not have an AMT foreign tax credit.

#### 2. Taxpayers who have credits that are limited by the tentative minimum tax

The Form 6251 instructions describe these taxpayers as follows:

Attach Form 6251 to your return if:

- You have certain credits (such as the low-income housing credit) that are limited by the amount on line 26

The credits that are subject to this limitation are:

1. The dependent care credit (I.R.C. §21)
2. The credit for the elderly and disabled (I.R.C. §22)

3. The adoption expense credit (I.R.C. §23)
4. The child tax credit (I.R.C. §24)
5. The credit for interest paid or accrued on certain home mortgages of low-income persons (I.R.C. §25)
6. The credit for higher-education expenses [the HOPE credit and the Lifetime Learning credit (I.R.C. §25A)]
7. The general business credit (I.R.C. §38)
8. The AMT credit (I.R.C. §53)

**Example 1.** August and May Flowers have a son who is in college in 1999. They meet the Hope scholarship credit requirements for a \$1,500 credit, but their regular tax liability is \$15,530 and their tentative minimum tax is \$14,300. They must file Form 6251 and limit their Hope credit to \$1,230 (\$15,530 – \$14,300).

### 3. Taxpayers who have income, deductions, and credits that the IRS wants to see reported on Form 6251 in order to determine that the taxpayer is not liable for the AMT

The Form 6251 instructions describe these taxpayers with the following instruction:

Attach Form 6251 to your return if:

- The total of lines 7 through 14 is negative and line 24 would exceed line 27 if you did not take lines 7 through 14 into account.

Lines 7 through 14 cover most, but not all, of the adjustments and preferences. This instruction allows the IRS to see the listed adjustments and preferences even though there is no AMT liability. The IRS can then verify that no AMT is due.

#### WHICH TAXPAYERS DO NOT HAVE TO FILE FORM 6251?

For most taxpayers, there is no shortcut to determining that Form 6251 does not have to be filed. It is as easy to fill out Form 6251 and apply the three tests from the instructions as it is to follow any rules of thumb. This is particularly true if computer software is used to complete the tax return, since the software will make the determination of whether Form 6251 needs to be attached to the Form 1040.

#### WHICH TAXPAYERS ARE NOT LIABLE FOR AMT?

A more practical issue is whether a taxpayer is going to be liable for AMT. This question must be addressed when a practitioner is doing tax planning for a client. In that setting, the practitioner may not be using computer software. Therefore, shortcuts may be of more use. Fortunately, it is easier to describe shortcuts for determining that the taxpayer does not owe AMT than it is to describe shortcuts for determining that the taxpayer does not have to file Form 6251.

#### First (Easiest) Shortcut

If the taxpayer's taxable income increased by adjustments, preferences, and personal exemption deductions is less than the exemption amount, the taxpayer does not owe AMT.

For purposes of this shortcut, taxable income can be negative. The exemption amounts are \$45,000 for married filing jointly and qualifying widow(er)s, \$33,750 for single or head of household, and \$22,500 for married filing separately.

In many cases this shortcut can be applied by scanning the taxpayer's income and deductions, and comparing the result with the exemption amount.

**Example 2.** Rocky and Sandy Beach asked their tax consultant to estimate the tax consequences of taking out a \$100,000 home equity loan to help out Rocky's brother, who is in financial difficulty. They will pay \$8,000 of interest each year on the loan and will not receive any interest from Rocky's brother.

# 1999 Workbook

Rocky and Sandy expect their income and deductions for the next few years to be about the same as the income and deductions shown on their 1998 income tax return.

Their 1998 income tax return shows the following:

Taxable income (line 39 of Form 1040)	\$25,000
Personal exemption deductions (line 38 of Form 1040)	16,200
State and local taxes [line 9 of Schedule A (Form 1040)]	3,000
Total	<u>\$44,200</u>

Adding the \$8,000 home equity interest to future years will not change the total since it will reduce taxable income but will increase the adjustments and preferences that must be added back. Since the total is less than \$45,000, the tax consultant can conclude there will be no AMT and can project the tax consequences by looking only at the regular tax.

The following worksheet can be used to document the application of the shortcut in the taxpayer's file.

## Worksheet for Determining There Is No AMT Liability

1. Enter taxable income (line 39 of 1999 Form 1040) (can be negative)	\$17,000
2. Enter the personal exemption deduction (line 38 of 1999 Form 1040)	\$16,200
3. Enter the net of any amounts from lines 1 through 14 of Form 6251 (can be negative)	\$11,000
4. Combine lines 1, 2, and 3	\$44,200
5. Enter: \$45,000 for married filing jointly and qualifying widow(er) \$33,750 for single or head of household \$22,500 for married filing separately	\$45,000
6. Subtract line 5 from line 4. If the result is zero or less, there is no AMT liability.	\$ (800)
7. If line 6 is positive, multiply line 6 by 0.28.	\$
8. If line 1 is positive, multiply line 1 by 0.15; otherwise, enter zero.	\$
9. Subtract line 8 from line 7. If the result is zero or less, there is no AMT liability.	\$

## Second (Not as Easy) Shortcut

If the result of the first shortcut is that line 6 of the worksheet is positive, the taxpayer is not necessarily liable for AMT. The second shortcut is to do a rough (but conservative) estimate of the AMT. That can be done by multiplying the amount from line 6 of the worksheet by the highest AMT rate (28%), and the taxable income on line 1 of the worksheet by the lowest regular tax rate (15%). If the result of the first multiplication is less than the result of the second, the taxpayer does not owe AMT.

**Example 3.** Assume Rocky and Sandy Beach from the previous example properly reported the following on their 1998 income tax return:

Taxable income (line 39 of Form 1040)	\$25,000
Personal exemption deductions (line 38 of Form 1040)	16,200
State and local taxes [line 9 of Schedule A (Form 1040)]	5,000
Total	<u>\$46,200</u>

The first and second shortcuts are shown on the following worksheet.

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## Worksheet for Determining There Is No AMT Liability

1. Enter taxable income (line 39 of 1999 Form 1040) (can be negative)	\$ 17,000
2. Enter the personal exemption deduction (line 38 of 1999 Form 1040)	\$ 16,200
3. Enter the net of any amounts from lines 1 through 14 of Form 6251 (can be negative)	\$ 13,000
4. Combine lines 1, 2, and 3	\$ 46,200
5. Enter: \$45,000 for married filing jointly and qualifying widow(er) \$33,750 for single or head of household \$22,500 for married filing separately.	\$ 45,000
6. Subtract line 5 from line 4. If the result is zero or less, there is no AMT liability.	\$ 1,200
7. If line 6 is positive, multiply line 6 by 0.28.	\$ 336
8. If line 1 is positive, multiply line 1 by 0.15; otherwise, enter zero.	\$ 2,550
9. Subtract line 8 from line 7. If the result is zero or less, there is no AMT liability.	\$(2,214)

**Practitioner Note.** If the amount on line 10 of the worksheet is positive, the taxpayer is still not necessarily liable for the AMT. Form 6251 should be completed to determine any AMT consequences of the tax planning.

## AMT SURPRISES

As the regular income tax rates have decreased over the years and the AMT rate has increased slightly, more and more taxpayers are subject to the AMT. Surprisingly, some taxpayers who do not appear to be claiming a lot of regular tax benefits are liable for the AMT.

## HIGH PERSONAL EXEMPTION DEDUCTIONS

Taxpayers who have a lot of personal exemptions on their income tax return may be liable for the AMT even though they have no other adjustments and preferences and they do not have high income.

**Example 4.** Red and Rose Budd have 10 children and properly reported the following on their 1999 income tax return:

Adjusted gross income (line 34 of Form 1040)	\$85,200
Less: Standard deduction (line 36 of Form 1040)	7,200
Balance (line 37 of Form 1040)	\$78,000
Less: Exemptions deduction (12 × \$2,750)	33,000
Taxable income (line 39 of Form 1040)	\$45,000
Regular tax (line 40 of Form 1040)	\$ 7,011

They owe \$3,441 of AMT, as shown on the following Form 6251.

# 1999 Workbook

Form **6251**  
 Department of the Treasury  
 Internal Revenue Service (99)

## Alternative Minimum Tax—Individuals

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0227

1999

Attachment  
 Sequence No. 32

Name(s) shown on Form 1040

**Red and Rose Budd (Example 4)**

Your social security number

011 55 6251

### Part I Adjustments and Preferences

1 If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1	7,200	
2 Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2		
3 Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3		
4 Certain interest on a home mortgage <b>not</b> used to buy, build, or improve your home . . . . .	4		
5 Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5		
6 Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	(            )	
7 Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7		
8 Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8		
9 Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9		
10 Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10		
11 Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11		
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12		
13 Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13		
14 Other. Enter the amount, if any, for each item below and enter the total on line 14.			
a Circulation expenditures . . . . .			
b Depletion . . . . .			
c Depreciation (pre-1987) . . . . .			
d Installment sales . . . . .			
e Intangible drilling costs . . . . .			
f Large partnerships . . . . .			
g Long-term contracts . . . . .			
h Loss limitations . . . . .			
i Mining costs . . . . .			
j Patron's adjustment . . . . .			
k Pollution control facilities . . . . .			
l Research and experimental . . . . .			
m Section 1202 exclusion . . . . .			
n Tax shelter farm activities . . . . .			
o Related adjustments . . . . .			
14			
15 <b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	7,200	

### Part II Alternative Minimum Taxable Income

16 Enter the amount from <b>Form 1040, line 37</b> . If less than zero, enter as a (loss) . . . . . ▶	16	78,000	
17 Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17		
18 If Form 1040, line 34, is over \$126,600 (over \$63,300 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	(            )	
19 Combine lines 15 through 18 . . . . . ▶	19	85,200	
20 Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20		
21 <b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	85,200	

### Part III Exemption Amount and Alternative Minimum Tax

22 <b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)																					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 30%; text-align: center; font-weight: bold;">AND line 21 is not over . . .</td> <td style="width: 30%; text-align: center; font-weight: bold;">THEN enter on line 22 . . .</td> <td style="width: 10%;"></td> </tr> <tr> <td>IF your filing status is . . . . .</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Single or head of household . . . . .</td> <td style="text-align: center;">\$112,500 . . . . .</td> <td style="text-align: center;">\$33,750 . . . . .</td> <td rowspan="3" style="font-size: 3em; vertical-align: middle;">}</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er) . . . . .</td> <td style="text-align: center;">150,000 . . . . .</td> <td style="text-align: center;">45,000 . . . . .</td> </tr> <tr> <td>Married filing separately . . . . .</td> <td style="text-align: center;">75,000 . . . . .</td> <td style="text-align: center;">22,500 . . . . .</td> </tr> </table>		AND line 21 is not over . . .	THEN enter on line 22 . . .		IF your filing status is . . . . .				Single or head of household . . . . .	\$112,500 . . . . .	\$33,750 . . . . .	}	Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000 . . . . .	Married filing separately . . . . .	75,000 . . . . .	22,500 . . . . .	22	45,000	
	AND line 21 is not over . . .	THEN enter on line 22 . . .																			
IF your filing status is . . . . .																					
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750 . . . . .	}																		
Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000 . . . . .																			
Married filing separately . . . . .	75,000 . . . . .	22,500 . . . . .																			
If line 21 is <b>over</b> the amount shown above for your filing status, see page 7 of the instructions.																					
23 Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	40,200																			
24 If you reported capital gain distributions directly on Form 1040, line 13, <b>or</b> you completed Schedule D (Form 1040) and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	10,452																			
25 Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25	0																			
26 Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	10,452																			
27 Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	7,011																			
28 <b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	3,441																			

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**Observation.** An irony is that higher-income taxpayers are less likely to owe AMT caused by a high number of personal exemptions because the personal exemptions deduction is phased out for higher-income taxpayers.

**Example 5.** If Red and Rose Budd from the previous example had \$220,200 of adjusted gross income, their regular tax liability would be as shown below.

Adjusted gross income (line 34 of Form 1040)	\$220,200
Less: Standard deduction (line 36 of Form 1040)	7,200
Balance (line 37 of Form 1040)	\$213,000
Less: Exemptions deduction (from worksheet below)	<u>24,420</u>
Taxable income (line 39 of Form 1040)	\$188,580
Regular tax (line 40 of Form 1040)	\$51,243

**-Deduction for Exemptions Worksheet—Line 38 (keep for your records)**

1. Is the amount on Form 1040, line 34, more than the amount shown on line 4 below for your filing status?  
**No. Stop.** Multiply \$2,750 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 38.  
**Yes.** Go to line 2.
  
2. Multiply \$2,750 by the total number of exemptions claimed on Form 1040, line 6d 2. 33,000
  
3. Enter the amount from Form 1040, line 34 3. 220,200
  
4. Enter the amount shown below for your filing status:
  - Married filing separately, enter \$94,975
  - Single, enter \$126,600
  - Head of household, enter \$158,300
  - Married filing jointly or Qualifying widow(er), enter \$189,9504. 189,950
  
5. Subtract line 4 from line 3. If zero or less, stop; enter the amount from line 2 above on Form 1040, line 38  
 Note: If line 5 is more than: \$122,500 if single, married filing jointly, head of household, or qualifying widow(er); \$61,250 if married filing separately, stop; you cannot take a deduction for exemptions. Enter -0- on Form 1040, line 38. 5. 30,250
  
6. Divide line 5 by: \$2,500 if single, married filing jointly, head of household, or qualifying widow(er); \$1,250 if married filing separately. If the result is not a whole number, round it up to the next higher whole number (for example, round 0.0004 to 1) 6. 13
  
7. Multiply line 6 by 2% (.02) and enter the result as a decimal amount 7. .26
  
8. Multiply line 2 by line 7 8. 8,580
  
9. **Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 38 9. 24,620

They would not owe any AMT, as shown on the following Form 6251.

# 1999 Workbook

Form **6251**

## Alternative Minimum Tax—Individuals

OMB No. 1545-0227

1999

Attachment Sequence No. **32**

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on Form 1040

Your social security number

Red and Rose Budd (Example 5)

011 | 55 | 6251

### Part I Adjustments and Preferences

1 If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1	7,200	
2 Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2		
3 Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3		
4 Certain interest on a home mortgage <b>not</b> used to buy, build, or improve your home . . . . .	4		
5 Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5		
6 Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	(            )	
7 Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7		
8 Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8		
9 Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9		
10 Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10		
11 Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11		
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12		
13 Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13		
14 Other. Enter the amount, if any, for each item below and enter the total on line 14.			
a Circulation expenditures . . . . .			
b Depletion . . . . .			
c Depreciation (pre-1987) . . . . .			
d Installment sales . . . . .			
e Intangible drilling costs . . . . .			
f Large partnerships . . . . .			
g Long-term contracts . . . . .			
h Loss limitations . . . . .			
i Mining costs . . . . .			
j Patron's adjustment . . . . .			
k Pollution control facilities . . . . .			
l Research and experimental . . . . .			
m Section 1202 exclusion . . . . .			
n Tax shelter farm activities . . . . .			
o Related adjustments . . . . .			
15 <b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	7,200	

### Part II Alternative Minimum Taxable Income

16 Enter the amount from <b>Form 1040, line 37</b> . If less than zero, enter as a (loss) . . . . . ▶	16	213,000	
17 Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17		
18 If Form 1040, line 34, is over \$126,600 (over \$63,300 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	(            )	
19 Combine lines 15 through 18 . . . . . ▶	19	220,200	
20 Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20		
21 <b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	220,200	

### Part III Exemption Amount and Alternative Minimum Tax

22 <b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)																	
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<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>															
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750 . . . . .	}														
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26 Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	50,470															
27 Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	51,243															
28 <b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	0															



# 1999 Workbook

## Exemption Worksheet—Line 22 (keep for your records)

Note: If Form 6251, line 21, is equal to or more than: \$247,500 if single or head of household; \$330,000 if married filing jointly or qualifying widow(er); or \$165,000 if married filing separately; your exemption is zero. Do not complete this worksheet; instead, enter the amount from Form 6251, line 21, on line 23 and go to line 24.

1. Enter: \$33,750 if single or head of household; \$45,000 if married filing jointly or qualifying widow(er); \$22,500 if married filing separately	1. <u>45,000</u>
2. Enter your alternative minimum taxable income (AMTI) from Form 6251, line 21	2. <u>220,200</u>
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. <u>150,000</u>
4. Subtract line 3 from line 2. If zero or less, enter -0-	4. <u>70,200</u>
5. Multiply line 4 by 25% (.25)	5. <u>17,550</u>
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 22, and go to Form 6251, line 23	6. <u>27,450</u>
7. Child's minimum exemption amount	7. <u>\$5,000</u>
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 22, and go to Form 6251, line 23	10. _____



### HIGH STATE AND LOCAL TAXES

High state and local taxes can cause taxpayers to owe AMT.

**Example 6.** Hi Flyer is single and has \$150,000 of income each year. He takes advantage of the standard deduction by doubling his payment of real property taxes and state income taxes in one year and paying none in the next. He claims the standard deduction on his federal income tax return in the year he pays no state and local taxes. For 1999, he had the following income, deductions, and regular income tax:

Adjusted gross income (line 34 of Form 1040)	\$150,000
Less: Itemized deductions (line 36 of Form 1040)	
Real property taxes	\$18,000
State income taxes	12,000
Total itemized deductions	<u>\$30,000</u>
Itemized deductions from worksheet below	<u>29,298</u>
Balance (line 37 of Form 1040)	\$120,702
Less: Exemptions deduction (from worksheet below)	<u>2,200</u>
Taxable income (line 39 of Form 1040)	\$118,502
Regular tax (line 40 of Form 1040)	\$ 31,515

### Itemized Deductions Worksheet—Line 28 (keep for your records)

1. Add the amounts on Schedule A, lines 4, 9, 14, 18, 19, 26, and 27	1. <u>30,000</u>
2. Add the amounts on Schedule A, lines 4, 13, and 19, plus any gambling and casualty or theft losses included on line 27 Caution: Be sure your total gambling and casualty or theft losses are clearly identified on the dotted line next to line 27.	2. <u>-0-</u>
3. Subtract line 2 from line 1. If the result is zero, <b>stop here</b> ; enter the amount from line 1 above on Schedule A, line 28, and see the <b>Note</b> below.	3. <u>30,000</u>

# 1999 Workbook

4. Multiply line 3 above by 80% (.80) 4. 24,000
5. Enter the amount from Form 1040, line 34 5. 150,000
6. Enter: \$126,600 if single, married filing jointly, head of household, or qualifying widow(er); \$63,300 if married filing separately 6. 126,600
7. Subtract line 6 from line 5. If the result is zero or less, **stop here**; enter the amount from line 1 above on Schedule A, line 28, and see the Note below 7. 23,400
8. Multiply line 7 above by 3% (.03) 8. 702
9. Enter the smaller of line 4 or line 8 9. 702
10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule A, line 28, and see the **Note** below 10. 29,298

Note: Also enter on Form 1040, line 36, the larger of the amount you enter on Schedule A, line 28, or your standard deduction.

## -Deduction for Exemptions Worksheet—Line 38 (keep for your records)

1. Is the amount on Form 1040, line 34, more than the amount shown on line 4 below for your filing status?  
**No. Stop.** Multiply \$2,750 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 38.  
**Yes.** Go to line 2.
2. Multiply \$2,750 by the total number of exemptions claimed on Form 1040, line 6d 2. 2,750
3. Enter the amount from Form 1040, line 34 3. 150,000
4. Enter the amount shown below for your filing status:  
  - Married filing separately, enter \$94,975
  - Single, enter \$126,600
  - Head of household, enter \$158,300
  - Married filing jointly or Qualifying widow(er), enter \$189,9504. 126,600
5. Subtract line 4 from line 3. If zero or less, stop; enter the amount from line 2 above on Form 1040, line 38  
Note: If line 5 is more than: \$122,500 if single, married filing jointly, head of household, or qualifying widow(er); \$61,250 if married filing separately, stop; you cannot take a deduction for exemptions. Enter -0- on Form 1040, line 38. 5. 23,400
6. Divide line 5 by: \$2,500 if single, married filing jointly, head of household, or qualifying widow(er); \$1,250 if married filing separately. If the result is not a whole number, round it up to the next higher whole number (for example, round 0.0004 to 1) 6. 10
7. Multiply line 6 by 2% (.02) and enter the result as a decimal amount 7. .20
8. Multiply line 2 by line 7 8. 550
9. **Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 38 9. 2,200

Hi Flyer owes \$1,165 of AMT, as shown on the following Form 6251.

# 1999 Workbook

Form **6251**

## Alternative Minimum Tax—Individuals

OMB No. 1545-0227

1999

Attachment  
Sequence No. **32**

Department of the Treasury  
Internal Revenue Service (99)

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

Name(s) shown on Form 1040

Hi Flyer (Example 6)

Your social security number  
**002 55 6251**

### Part I Adjustments and Preferences

1 If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1			
2 Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2			
3 Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3	<b>30,000</b>		
4 Certain interest on a home mortgage <b>not</b> used to buy, build, or improve your home . . . . .	4			
5 Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5			
6 Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	( )		
7 Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7			
8 Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8			
9 Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9			
10 Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10			
11 Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11			
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12			
13 Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13			
14 Other. Enter the amount, if any, for each item below and enter the total on line 14.				
a Circulation expenditures . . . . .				
b Depletion . . . . .				
c Depreciation (pre-1987) . . . . .				
d Installment sales . . . . .				
e Intangible drilling costs . . . . .				
f Large partnerships . . . . .				
g Long-term contracts . . . . .				
h Loss limitations . . . . .				
i Mining costs . . . . .				
j Patron's adjustment . . . . .				
k Pollution control facilities . . . . .				
l Research and experimental . . . . .				
m Section 1202 exclusion . . . . .				
n Tax shelter farm activities . . . . .				
o Related adjustments . . . . .				
14				
15 <b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	<b>30,000</b>		

### Part II Alternative Minimum Taxable Income

16 Enter the amount from <b>Form 1040, line 37</b> . If less than zero, enter as a (loss) . . . . . ▶	16	<b>120,702</b>		
17 Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17			
18 If Form 1040, line 34, is over \$126,600 (over \$63,300 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	( <b>702</b> )		
19 Combine lines 15 through 18 . . . . . ▶	19	<b>150,000</b>		
20 Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20			
21 <b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	<b>150,000</b>		

### Part III Exemption Amount and Alternative Minimum Tax

22 <b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"><b>IF your filing status is . . .</b></td> <td style="width: 30%; text-align: center;"><b>AND line 21 is not over . . .</b></td> <td style="width: 30%; text-align: center;"><b>THEN enter on line 22 . . .</b></td> </tr> <tr> <td>Single or head of household . . . . .</td> <td style="text-align: center;">\$112,500 . . . . .</td> <td style="text-align: center;">\$33,750</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er) . . . . .</td> <td style="text-align: center;">150,000 . . . . .</td> <td style="text-align: center;">45,000</td> </tr> <tr> <td>Married filing separately . . . . .</td> <td style="text-align: center;">75,000 . . . . .</td> <td style="text-align: center;">22,500</td> </tr> </table>	<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>	Single or head of household . . . . .	\$112,500 . . . . .	\$33,750	Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000	Married filing separately . . . . .	75,000 . . . . .	22,500				
<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>														
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750														
Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000														
Married filing separately . . . . .	75,000 . . . . .	22,500														
If line 21 is <b>over</b> the amount shown above for your filing status, see page 7 of the instructions.																
23 Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	<b>125,625</b>														
24 If you reported capital gain distributions directly on Form 1040, line 13, <b>or</b> you completed Schedule D (Form 1040) and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	<b>32,663</b>														
25 Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25															
26 Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	<b>32,663</b>														
27 Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	<b>31,515</b>														
28 <b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	<b>1,148</b>														

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# 1999 Workbook

## Exemption Worksheet—Line 22 (keep for your records)

Note: If Form 6251, line 21, is equal to or more than: \$247,500 if single or head of household; \$330,000 if married filing jointly or qualifying widow(er); or \$165,000 if married filing separately; your exemption is zero. Do not complete this worksheet; instead, enter the amount from Form 6251, line 21, on line 23 and go to line 24.

1. Enter: \$33,750 if single or head of household; \$45,000 if married filing jointly or qualifying widow(er); \$22,500 if married filing separately	1. <u>33,750</u>
2. Enter your alternative minimum taxable income (AMTI) from Form 6251, line 21	2. <u>150,000</u>
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. <u>112,500</u>
4. Subtract line 3 from line 2. If zero or less, enter -0-	4. <u>37,500</u>
5. Multiply line 4 by 25% (.25)	5. <u>9,375</u>
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 22, and go to Form 6251, line 23	6. <u>24,375</u>
7. Child's minimum exemption amount	7. <u>\$5,000</u>
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 22, and go to Form 6251, line 23	10. _____

### HOBBY EXPENSES

The hobby loss rules under I.R.C. §83 limit a taxpayer's deductions from hobby activity to the amount of income from that activity. Furthermore, the deduction that is allowed is a miscellaneous itemized deduction, so it is subject to the 2% of adjusted gross income floor for regular income tax purposes.

As if all of that were not bad enough for the taxpayer, the AMT rules add some more bad news. The hobby expenses that are reported as property taxes or itemized deductions on Schedule A (Form 1040) cannot be deducted for AMT purposes. Therefore, for AMT purposes, the taxpayer must report the hobby income but is not allowed to deduct the hobby expenses.

**Example 7.** Ted E. Bear raises horses and is treated as having a hobby activity. In 1999 he had \$28,000 of income from his horse-raising activity and \$30,000 of expenses. For regular tax purposes, Ted is allowed a \$26,100 deduction for his hobby expenses after the 2% of AGI floor is subtracted. He cannot claim any of the hobby expenses for AMT purposes, which creates a \$632 AMT liability for Ted in 1999.

Ted's income, deductions and tax liability for 1999 are as follows:

Adjusted gross income (line 34 of Form 1040)	\$95,000
Less: Itemized deductions (line 36 of Form 1040)	
Hobby expenses (limited by income)	\$28,000
2% of AGI	<u>1,900</u>
Total itemized deductions	<u>\$26,100</u>
Balance (line 37 of Form 1040)	\$68,900
Less: Exemption deduction	<u>2,750</u>
Taxable income (line 39 of Form 1040)	\$66,150
Regular tax (from line 54 of Schedule D)	\$15,293
AMT (from line 28 of Form 6251 below)	<u>632</u>
Total tax (line 56 of Form 1040)	\$15,925

# 1999 Workbook

Form **6251**

## Alternative Minimum Tax—Individuals

OMB No. 1545-0227

1999

Attachment  
Sequence No. 32

Department of the Treasury  
Internal Revenue Service (99)

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

Name(s) shown on Form 1040

**Ted E. Bear (Example 7)**

Your social security number

007 55 6251

### Part I Adjustments and Preferences

1 If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1		
2 Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2		
3 Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3		
4 Certain interest on a home mortgage <b>not</b> used to buy, build, or improve your home . . . . .	4		
5 Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5	<b>26,100</b>	
6 Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	(            )	
7 Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7		
8 Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8		
9 Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9		
10 Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10		
11 Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11		
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12		
13 Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13		
14 Other. Enter the amount, if any, for each item below and enter the total on line 14.			
a Circulation expenditures . . . . .			
b Depletion . . . . .			
c Depreciation (pre-1987) . . . . .			
d Installment sales . . . . .			
e Intangible drilling costs . . . . .			
f Large partnerships . . . . .			
g Long-term contracts . . . . .			
h Loss limitations . . . . .			
i Mining costs . . . . .			
j Patron's adjustment . . . . .			
k Pollution control facilities . . . . .			
l Research and experimental . . . . .			
m Section 1202 exclusion . . . . .			
n Tax shelter farm activities . . . . .			
o Related adjustments . . . . .			
14			
15 <b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	<b>26,100</b>	

### Part II Alternative Minimum Taxable Income

16 Enter the amount from <b>Form 1040, line 37</b> . If less than zero, enter as a (loss) . . . . . ▶	16	<b>68,900</b>	
17 Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17		
18 If Form 1040, line 34, is over \$126,600 (over \$63,300 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	(            )	
19 Combine lines 15 through 18 . . . . . ▶	19	<b>95,000</b>	
20 Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20		
21 <b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	<b>95,000</b>	

### Part III Exemption Amount and Alternative Minimum Tax

22 <b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)																					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 30%; text-align: center;"><b>AND line 21 is not over . . .</b></td> <td style="width: 30%; text-align: center;"><b>THEN enter on line 22 . . .</b></td> <td></td> </tr> <tr> <td>IF your filing status is . . . . .</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Single or head of household . . . . .</td> <td style="text-align: center;">\$112,500 . . . . .</td> <td style="text-align: center;">\$33,750</td> <td rowspan="3" style="font-size: 3em; vertical-align: middle;">}</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er) . . . . .</td> <td style="text-align: center;">150,000 . . . . .</td> <td style="text-align: center;">45,000</td> </tr> <tr> <td>Married filing separately . . . . .</td> <td style="text-align: center;">75,000 . . . . .</td> <td style="text-align: center;">22,500</td> </tr> </table>		<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>		IF your filing status is . . . . .				Single or head of household . . . . .	\$112,500 . . . . .	\$33,750	}	Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000	Married filing separately . . . . .	75,000 . . . . .	22,500	22	<b>33,750</b>	
	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>																			
IF your filing status is . . . . .																					
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750	}																		
Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000																			
Married filing separately . . . . .	75,000 . . . . .	22,500																			
If line 21 is <b>over</b> the amount shown above for your filing status, see page 7 of the instructions.																					
23 Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	<b>61,250</b>																			
24 If you reported capital gain distributions directly on Form 1040, line 13, <b>or</b> you completed Schedule D (Form 1040) and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	<b>15,925</b>																			
25 Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25																				
26 Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	<b>15,925</b>																			
27 Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	<b>15,293</b>																			
28 <b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	<b>632</b>																			

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# 1999 Workbook

## INCOME AVERAGING FOR FARMERS

The AMT will eliminate all of the advantage of income averaging for some farmers since income averaging will increase the AMT by the same amount that it decreases the regular tax. See the discussion of income averaging in the Agricultural Issues chapter.

## EFFECT OF CAPITAL GAINS

Code §55(b)(3), which was added by the Taxpayer Relief Act of 1997, applies the capital gains rates used for regular tax purposes to the calculation of the tentative minimum tax. Therefore, on the face of the code language, capital gain appears **not** to cause a taxpayer to owe AMT. However, taxpayers who have high income and very high capital gains are subject to the AMT.

**Example 8.** Mary Mee is single and has \$100,000 of wage income in 1999. In 1999 she sold a piece of land her parents gave her when she graduated from college. Her basis in the property was \$30,000, and she received \$160,000 for it.

Mary's regular tax liability is \$50,314 as shown below.

Adjusted gross income (line 34 of Form 1040)	\$230,000
Less: Standard deduction (line 36 of Form 1040)	4,300
Balance (line 37 of Form 1040)	\$225,700
Less: Exemption deduction (from worksheet below)	440
Taxable income (line 39 of Form 1040)	\$225,260
Regular tax (from line 54 of Schedule D)	\$50,314

### -Deduction for Exemptions Worksheet—Line 38 (keep for your records)

1. Is the amount on Form 1040, line 34, more than the amount shown on line 4 below for your filing status?  
**No. Stop.** Multiply \$2,750 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 38.  
**Yes.** Go to line 2.
2. Multiply \$2,750 by the total number of exemptions claimed on Form 1040, line 6d 2. 2,750
3. Enter the amount from Form 1040, line 34 3. 230,000
4. Enter the amount shown below for your filing status:
  - Married filing separately, enter \$94,975
  - Single, enter \$126,600
  - Head of household, enter \$158,300
  - Married filing jointly or Qualifying widow(er), enter \$189,9504. 126,600
5. Subtract line 4 from line 3. If zero or less, stop; enter the amount from line 2 above on Form 1040, line 38  
Note: If line 5 is more than: \$122,500 if single, married filing jointly, head of household, or qualifying widow(er); \$61,250 if married filing separately, stop; you cannot take a deduction for exemptions. Enter -0- on Form 1040, line 38. 5. 103,400
6. Divide line 5 by: \$2,500 if single, married filing jointly, head of household, or qualifying widow(er); \$1,250 if married filing separately. If the result is not a whole number, round it up to the next higher whole number (for example, round 0.0004 to 1) 6. 42
7. Multiply line 6 by 2% (.02) and enter the result as a decimal amount 7. .84
8. Multiply line 2 by line 7 8. 2,310
9. **Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 38 9. 440

# 1999 Workbook

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

## Capital Gains and Losses

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).  
▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.

OMB No. 1545-0074

1999

Attachment  
Sequence No. 12

Name(s) shown on Form 1040

Mary Mee (Example 8)

Your social security number

003 55 6251

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5)	(e) Cost or other basis (see page D-5)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) * (see instr. below)
<b>8</b> <b>Land</b>	<b>10/15/85</b>	<b>10/20/99</b>	<b>160,000</b>	<b>30,000</b>	<b>130,000</b>	
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .			<b>9</b>			
10 <b>Total long-term sales price amounts.</b> Add column (d) of lines 8 and 9 . . . . .			<b>10</b>	<b>160,000</b>		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					<b>11</b>	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>12</b>	
13 Capital gain distributions. See page D-1 . . . . .					<b>13</b>	
14 Long-term capital loss carryover. Enter in both columns (f) and (g) the amount, if any, from line 13 of your 1998 Capital Loss Carryover Worksheet . . . . .					<b>14</b>	( ) ( )
15 Combine lines 8 through 14 in column (g) . . . . .					<b>15</b>	
16 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f) ▶ <b>Next:</b> Go to Part III on the back.					<b>16</b>	<b>130,000</b>

\* **28% Rate Gain or Loss** includes all "collectibles gains and losses" (as defined on page D-6) and up to 50% of the eligible gain on qualified small business stock (see page D-4).

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# 1999 Workbook

## Part III Summary of Parts I and II

17	Combine lines 7 and 16. If a loss, go to line 18. If a gain, enter the gain on Form 1040, line 13 <b>Next:</b> Complete Form 1040 through line 39. Then, go to <b>Part IV</b> to figure your tax if: <ul style="list-style-type: none"> <li>• Both lines 16 and 17 are gains, <b>and</b></li> <li>• Form 1040, line 39, is more than zero.</li> </ul>	17	<b>130,000</b>
18	If line 17 is a loss, enter here and as a (loss) on Form 1040, line 13, the <b>smaller</b> of these losses: <ul style="list-style-type: none"> <li>• The loss on line 17, <b>or</b></li> <li>• (\$3,000) or, if married filing separately, (\$1,500)</li> </ul> <b>Next:</b> Skip <b>Part IV</b> below. Instead, complete Form 1040 through line 37. Then, complete the <b>Capital Loss Carryover Worksheet</b> on page D-6 if: <ul style="list-style-type: none"> <li>• The loss on line 17 exceeds the loss on line 18, <b>or</b></li> <li>• Form 1040, line 37, is a loss.</li> </ul>	18	(                      )

## Part IV Tax Computation Using Maximum Capital Gains Rates

19	Enter your taxable income from Form 1040, line 39	19	<b>225,260</b>
20	Enter the <b>smaller</b> of line 16 or line 17 of Schedule D	20	<b>130,000</b>
21	If you are filing Form 4952, enter the amount from Form 4952, line 4e	21	
22	Subtract line 21 from line 20. If zero or less, enter -0-	22	<b>130,000</b>
23	Combine lines 7 and 15. If zero or less, enter -0-	23	<b>0</b>
24	Enter the <b>smaller</b> of line 15 or line 23, but not less than zero	24	<b>0</b>
25	Enter your unrecaptured section 1250 gain, if any, from line 14 of the worksheet on page D-7	25	<b>0</b>
26	Add lines 24 and 25	26	<b>0</b>
27	Subtract line 26 from line 22. If zero or less, enter -0-	27	<b>130,000</b>
28	Subtract line 27 from line 19. If zero or less, enter -0-	28	<b>95,260</b>
29	Enter the <b>smaller</b> of: <ul style="list-style-type: none"> <li>• The amount on line 19, <b>or</b></li> <li>• \$25,750 if single; \$43,050 if married filing jointly or qualifying widow(er);  \$21,525 if married filing separately; or \$34,550 if head of household</li> </ul>	29	<b>25,750</b>
30	Enter the <b>smaller</b> of line 28 or line 29	30	<b>25,750</b>
31	Subtract line 22 from line 19. If zero or less, enter -0-	31	<b>95,260</b>
32	Enter the <b>larger</b> of line 30 or line 31	32	<b>95,260</b>
33	Figure the tax on the amount on line 32. Use the Tax Table or Tax Rate Schedules, whichever applies <b>Note:</b> If line 28 is greater than or equal to line 29, go to line 38.	33	<b>24,314</b>
34	Enter the amount from line 29	34	<b>25,750</b>
35	Enter the amount from line 28	35	<b>95,260</b>
36	Subtract line 35 from line 34. If zero or less, enter -0-	36	<b>0</b>
37	Multiply line 36 by 10% (.10) <b>Note:</b> If line 27 is greater than zero and equal to line 36, go to line 52.	37	<b>0</b>
38	Enter the <b>smaller</b> of line 19 or line 27	38	<b>130,000</b>
39	Enter the amount from line 36	39	<b>0</b>
40	Subtract line 39 from line 38	40	<b>130,000</b>
41	Multiply line 40 by 20% (.20) <b>Note:</b> If line 25 is zero or blank, skip lines 42 through 47 and read the Note before line 48.	41	<b>26,000</b>
42	Enter the <b>smaller</b> of line 22 or line 25	42	
43	Add lines 22 and 32	43	
44	Enter the amount from line 19	44	
45	Subtract line 44 from line 43. If zero or less, enter -0-	45	
46	Subtract line 45 from line 42. If zero or less, enter -0-	46	
47	Multiply line 46 by 25% (.25) <b>Note:</b> If line 24 is zero or blank, go to line 52.	47	
48	Enter the amount from line 19	48	
49	Add lines 32, 36, 40, and 46	49	
50	Subtract line 49 from line 48	50	
51	Multiply line 50 by 28% (.28)	51	
52	Add lines 33, 37, 41, 47, and 51	52	<b>50,314</b>
53	Figure the tax on the amount on line 19. Use the Tax Table or Tax Rate Schedules, whichever applies	53	<b>69,360</b>
54	<b>Tax on all taxable income (including capital gains).</b> Enter the <b>smaller</b> of line 52 or line 53 here and on Form 1040, line 40.	54	<b>50,314</b>



# 1999 Workbook

Mary owes \$549 of AMT as shown on the following Form 6251.

Form **6251**  
 Department of the Treasury  
 Internal Revenue Service (99)

## Alternative Minimum Tax—Individuals

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0227

**1999**

Attachment  
 Sequence No. **32**

Name(s) shown on Form 1040

**Mary Mee (Example 8)**

Your social security number  
**003 : 55 : 6251**

### Part I Adjustments and Preferences

1	If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1	<b>4,300</b>
2	Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2 1/2% of Form 1040, line 34 . . . . .	2	
15	<b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	<b>4,300</b>

### Part II Alternative Minimum Taxable Income

16	Enter the amount from <b>Form 1040, line 37</b> . If less than zero, enter as a (loss) . . . . . ▶	16	<b>225,700</b>
17	Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17	
18	If Form 1040, line 34, is over \$126,600 (over \$63,300 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	( )
19	Combine lines 15 through 18 . . . . . ▶	19	<b>230,000</b>
20	Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20	
21	<b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	<b>230,000</b>

### Part III Exemption Amount and Alternative Minimum Tax

22	<b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)																
	<table border="0"> <tr> <td><b>IF your filing status is . . .</b></td> <td><b>AND line 21 is not over . . .</b></td> <td><b>THEN enter on line 22 . . .</b></td> <td></td> </tr> <tr> <td>Single or head of household . . . . .</td> <td>\$112,500 . . . . .</td> <td>\$33,750 . . . . .</td> <td rowspan="3">} . . .</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er) . . . . .</td> <td>150,000 . . . . .</td> <td>45,000 . . . . .</td> </tr> <tr> <td>Married filing separately. . . . .</td> <td>75,000 . . . . .</td> <td>22,500 . . . . .</td> </tr> </table>	<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>		Single or head of household . . . . .	\$112,500 . . . . .	\$33,750 . . . . .	} . . .	Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000 . . . . .	Married filing separately. . . . .	75,000 . . . . .	22,500 . . . . .	22	<b>4,375</b>
<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>															
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750 . . . . .	} . . .														
Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000 . . . . .															
Married filing separately. . . . .	75,000 . . . . .	22,500 . . . . .															
	If line 21 is <b>over</b> the amount shown above for your filing status, see page 7 of the instructions.																
23	Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	<b>225,625</b>														
24	If you reported capital gain distributions directly on Form 1040, line 13, <b>or</b> you completed Schedule D (Form 1040) and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	<b>50,863</b>														
25	Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25															
26	Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	<b>50,863</b>														
27	Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	<b>50,314</b>														
28	<b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	<b>549</b>														

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# 1999 Workbook

**Part IV** Line 24 Computation Using Maximum Capital Gains Rates

<b>Caution:</b> If you did not complete Part IV of Schedule D (Form 1040), see page 8 of the instructions before you complete this part.			
29	Enter the amount from line 23 . . . . .		<b>225,625</b>
30	Enter the amount from Schedule D (Form 1040), line 27 (as refigured for the AMT, if necessary). See page 8 of the instructions . . . . .	30	<b>130,000</b>
31	Enter the amount from Schedule D (Form 1040), line 25 (as refigured for the AMT, if necessary). See page 8 of the instructions . . . . .	31	<b>0</b>
32	Add lines 30 and 31 . . . . .	32	<b>130,000</b>
33	Enter the amount from Schedule D (Form 1040), line 22 (as refigured for the AMT, if necessary). See page 8 of the instructions . . . . .	33	<b>130,000</b>
34	Enter the <b>smaller</b> of line 32 or line 33 . . . . .	34	<b>130,000</b>
35	Subtract line 34 from line 29. If zero or less, enter -0- . . . . .	35	<b>95,625</b>
36	If line 35 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 35 by 26% (.26). Otherwise, multiply line 35 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . .	36	<b>24,863</b>
37	Enter the amount from Schedule D (Form 1040), line 36 (as figured for the regular tax) . . . . .	37	<b>0</b>
38	Enter the <b>smallest</b> of line 29, line 30, or line 37 . . . . .	38	<b>0</b>
39	Multiply line 38 by 10% (.10) . . . . .	39	<b>0</b>
40	Enter the <b>smaller</b> of line 29 or line 30 . . . . .	40	<b>130,000</b>
41	Enter the amount from line 38 . . . . .	41	<b>0</b>
42	Subtract line 41 from line 40 . . . . .	42	<b>130,000</b>
43	Multiply line 42 by 20% (.20) . . . . .	43	<b>26,000</b>
<b>Note:</b> If line 31 is zero or blank, go to line 48.			
44	Enter the amount from line 29 . . . . .	44	
45	Add lines 35, 38, and 42 . . . . .	45	
46	Subtract line 45 from line 44 . . . . .	46	
47	Multiply line 46 by 25% (.25) . . . . .	47	
48	Add lines 36, 39, 43, and 47 . . . . .	48	<b>50,863</b>
49	If line 29 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 29 by 26% (.26). Otherwise, multiply line 29 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . .	49	<b>58,663</b>
50	Enter the <b>smaller</b> of line 48 or line 49 here and on line 24 . . . . .	50	<b>50,863</b>

**Exemption Worksheet—Line 22 (keep for your records)**

Note: If Form 6251, line 21, is equal to or more than: \$247,500 if single or head of household; \$330,000 if married filing jointly or qualifying widow(er); or \$165,000 if married filing separately; your exemption is zero. Do not complete this worksheet; instead, enter the amount from Form 6251, line 21, on line 23 and go to line 24.

- |  |                   |
|--|-------------------|
| 1. Enter: \$33,750 if single or head of household; \$45,000 if married filing jointly or qualifying widow(er); \$22,500 if married filing separately   | 1. <u>33,750</u>  |
| 2. Enter your alternative minimum taxable income (AMTI) from Form 6251, line 21  | 2. <u>230,000</u> |
| 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. <u>112,500</u> |
| 4. Subtract line 3 from line 2. If zero or less, enter -0-   | 4. <u>117,500</u> |
| 5. Multiply line 4 by 25% (.25)  | 5. <u>29,375</u>  |
| 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 22, and go to Form 6251, line 23 | 6. <u>4,375</u>   |
| 7. Child's minimum exemption amount  | 7. <u>\$5,000</u> |

# 1999 Workbook

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 22, and go to Form 6251, line 23 10. \_\_\_\_\_

**Observation.** Mary's capital gains caused her to pay AMT because they increased her AMT income, which decreased her AMT exemption. That caused more of her ordinary income that was taxed at 15% for regular tax purposes to be taxed at 28% for AMT purposes.

## SPREADING CAPITAL GAINS OVER MORE THAN ONE YEAR

The effect of having capital gains that cause an AMT liability is that the capital gains are taxed at higher than the regular tax capital gains rate, as shown in Example 8. That effect can be avoided by spreading the capital gains over more than one year.

**Example 9.** If Mary from Example 8 had sold her land on a contract that called for half of the \$160,000 purchase price to be paid in 1999 and the other half to be paid in 2000, she would not owe the AMT in 1999 or 2000. Therefore, she would realize the benefit of the 20% capital gains rate on all \$140,000 of her capital gain.

## ADJUSTED GAIN OR LOSS

If a taxpayer has an AMT-adjusted gain or loss and benefits from the maximum capital gains rates for regular tax purposes, the adjusted gain or loss must be taken into account when applying the maximum capital gains rates for the tentative minimum tax calculation.

**Example 10.** Hale and April Showers are married and file a joint return claiming four personal exemption deductions. In 1999 they sold a capital asset for \$20,000. Their regular tax basis in the capital asset was \$10,000 at the time of sale. Their AMT basis in the capital asset was \$14,000. Therefore, they have a negative \$4,000 gain adjustment to report on line 9 of Form 6251. They also have a \$15,000 adjustment for state and local taxes and a \$20,000 adjustment for incentive stock options.

Hale and April's regular tax is \$16,137, as shown below:

Adjusted Gross Income (line 34 of Form 1040)	\$106,467
Less: Itemized deductions (line 36 of Form 1040)	
Real property taxes	\$ 10,000
State income taxes	5,000
Total itemized deductions	\$ 15,000
Balance (line 37 of Form 1040)	\$ 91,467
Less: Exemptions deduction (4 × \$2,750)	11,000
Taxable income (line 39 of Form 1040)	\$ 80,467
Regular tax (from line 54 of Schedule D)	\$ 16,137

# 1999 Workbook

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on Form 1040

## Capital Gains and Losses

- ▶ Attach to Form 1040.    ▶ See Instructions for Schedule D (Form 1040).  
▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.

OMB No. 1545-0074

1999

Attachment  
Sequence No. **12**

Hale & April Showers (Example 10)

Your social security number  
**004 55 6251**

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5)	(e) Cost or other basis (see page D-5)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) * (see instr. below)
<b>8</b> Capital Asset	<b>10/14/86</b>	<b>6/20/99</b>	<b>20,000</b>	<b>10,000</b>	<b>10,000</b>	
<b>15</b> Combine lines 8 through 14 in column (g)					<b>15</b>	
<b>16</b> Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f) ▶ Next: Go to Part III on the back.					<b>16</b>	<b>10,000</b>

\* **28% Rate Gain or Loss** includes all "collectibles gains and losses" (as defined on page D-6) and up to 50% of the eligible gain on qualified small business stock (see page D-4).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

Schedule D (Form 1040) 1999

Schedule D (Form 1040) 1999

## Hale & April Showers (Example 10)

Page **2**

**Part III Summary of Parts I and II**

<p><b>17</b> Combine lines 7 and 16. If a loss, go to line 18. If a gain, enter the gain on Form 1040, line 13 Next: Complete Form 1040 through line 39. Then, go to <b>Part IV</b> to figure your tax if:</p> <ul style="list-style-type: none"> <li>• Both lines 16 and 17 are gains, and</li> <li>• Form 1040, line 39, is more than zero.</li> </ul>	<b>17</b>	<b>10,000</b>	
<p><b>18</b> If line 17 is a loss, enter here and as a (loss) on Form 1040, line 13, the smaller of these losses:</p> <ul style="list-style-type: none"> <li>• The loss on line 17, or</li> <li>• (\$3,000) or, if married filing separately, (\$1,500)</li> </ul> <p>Next: Skip <b>Part IV</b> below. Instead, complete Form 1040 through line 37. Then, complete the <b>Capital Loss Carryover Worksheet</b> on page D-6 if:</p> <ul style="list-style-type: none"> <li>• The loss on line 17 exceeds the loss on line 18, or</li> <li>• Form 1040, line 37, is a loss.</li> </ul>	<b>18</b>	(                      )	

**Part IV Tax Computation Using Maximum Capital Gains Rates**

<p><b>19</b> Enter your taxable income from Form 1040, line 39</p>				<b>19</b>	<b>80,467</b>
<b>20</b> Enter the smaller of line 16 or line 17 of Schedule D	<b>20</b>	<b>10,000</b>			
<b>21</b> If you are filing Form 4952, enter the amount from Form 4952, line 4e	<b>21</b>				
<b>22</b> Subtract line 21 from line 20. If zero or less, enter -0-	<b>22</b>	<b>10,000</b>			
<b>23</b> Combine lines 7 and 15. If zero or less, enter -0-	<b>23</b>	<b>0</b>			
<b>24</b> Enter the smaller of line 15 or line 23, but not less than zero	<b>24</b>	<b>0</b>			
<b>25</b> Enter your unrecaptured section 1250 gain, if any, from line 14 of the worksheet on page D-7	<b>25</b>	<b>0</b>			
<b>26</b> Add lines 24 and 25	<b>26</b>	<b>0</b>			
<b>27</b> Subtract line 26 from line 22. If zero or less, enter -0-	<b>27</b>			<b>10,000</b>	
<b>28</b> Subtract line 27 from line 19. If zero or less, enter -0-	<b>28</b>			<b>70,467</b>	
<b>29</b> Enter the smaller of:					
<ul style="list-style-type: none"> <li>• The amount on line 19, or</li> <li>• \$25,750 if single; \$43,050 if married filing jointly or qualifying widow(er); \$21,525 if married filing separately; or \$34,550 if head of household</li> </ul>	<b>29</b>			<b>43,050</b>	
<b>30</b> Enter the smaller of line 28 or line 29	<b>30</b>	<b>43,050</b>			
<b>31</b> Subtract line 22 from line 19. If zero or less, enter -0-	<b>31</b>	<b>70,467</b>			
<b>32</b> Enter the larger of line 30 or line 31	<b>32</b>	<b>70,467</b>			
<b>33</b> Figure the tax on the amount on line 32. Use the Tax Table or Tax Rate Schedules, whichever applies Note: If line 28 is greater than or equal to line 29, go to line 38.	<b>33</b>			<b>14,137</b>	
<b>34</b> Enter the amount from line 29	<b>34</b>	<b>43,050</b>			
<b>35</b> Enter the amount from line 28	<b>35</b>	<b>70,467</b>			
<b>36</b> Subtract line 35 from line 34. If zero or less, enter -0-	<b>36</b>	<b>0</b>			
<b>37</b> Multiply line 36 by 10% (.10) Note: If line 27 is greater than zero and equal to line 36, go to line 52.	<b>37</b>			<b>0</b>	
<b>38</b> Enter the smaller of line 19 or line 27	<b>38</b>	<b>10,000</b>			
<b>39</b> Enter the amount from line 36	<b>39</b>	<b>0</b>			

# 1999 Workbook

40	Subtract line 39 from line 38 . . . . .	▶	40	10,000			
41	Multiply line 40 by 20% (.20) . . . . .					41	2,000
	<b>Note:</b> If line 25 is zero or blank, skip lines 42 through 47 and read the Note before line 48.						
42	Enter the <b>smaller</b> of line 22 or line 25 . . . . .		42				
43	Add lines 22 and 32 . . . . .		43				
44	Enter the amount from line 19 . . . . .		44				
45	Subtract line 44 from line 43. If zero or less, enter -0- . . . . .		45				
46	Subtract line 45 from line 42. If zero or less, enter -0- . . . . .	▶	46				
47	Multiply line 46 by 25% (.25) . . . . .					47	
	<b>Note:</b> If line 24 is zero or blank, go to line 52.						
48	Enter the amount from line 19 . . . . .		48				
49	Add lines 32, 36, 40, and 46 . . . . .		49				
50	Subtract line 49 from line 48 . . . . .		50				
51	Multiply line 50 by 28% (.28) . . . . .					51	
52	Add lines 33, 37, 41, 47, and 51. . . . .					52	16,137
53	Figure the tax on the amount on line 19. Use the Tax Table or Tax Rate Schedules, whichever applies . . . . .					53	16,937
54	<b>Tax on all taxable income (including capital gains).</b> Enter the <b>smaller</b> of line 52 or line 53 here and on Form 1040, line 40. . . . .					54	16,137

Hale and April owe \$3,645 of AMT, as shown on the following Form 6251.

**Practitioner Note.** The entries for lines 30 and 33 of Form 6251 for Hale and April are the \$6,000 gain they realized for AMT purposes rather than the \$10,000 gain they realized for regular tax purposes. Only that \$6,000 qualifies for the 20% capital gains rate in the tentative minimum tax calculation. The remaining \$4,000 of the \$10,000 capital gain is not in the AMT income. It was subtracted on line 9 of Form 6251 as a negative capital gain adjustment.

4

# 1999 Workbook

Form **6251**  
 Department of the Treasury  
 Internal Revenue Service (99)

## Alternative Minimum Tax—Individuals

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0227

1999

Attachment  
Sequence No. **32**

Name(s) shown on Form 1040

**Hale and April Showers (Example 10)**

Your social security number  
**004 55 6251**

### Part I Adjustments and Preferences

1 If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1			
2 Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2			
3 Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3	<b>15,000</b>		
4 Certain interest on a home mortgage <b>not</b> used to buy, build, or improve your home . . . . .	4			
5 Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5			
6 Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	(		)
7 Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7			
8 Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8			
9 Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9	<b>-4,000</b>		
10 Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10	<b>20,000</b>		
11 Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11			
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12			
13 Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13			
14 Other. Enter the amount, if any, for each item below and enter the total on line 14.	14			
a Circulation expenditures . . . . .				
b Depletion . . . . .				
c Depreciation (pre-1987) . . . . .				
d Installment sales . . . . .				
e Intangible drilling costs . . . . .				
f Large partnerships . . . . .				
g Long-term contracts . . . . .				
h Loss limitations . . . . .				
i Mining costs . . . . .				
j Patron's adjustment . . . . .				
k Pollution control facilities . . . . .				
l Research and experimental . . . . .				
m Section 1202 exclusion . . . . .				
n Tax shelter farm activities . . . . .				
o Related adjustments . . . . .				
15 <b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	<b>31,000</b>		

### Part II Alternative Minimum Taxable Income

16 Enter the amount from <b>Form 1040, line 37</b> . If less than zero, enter as a (loss) . . . . . ▶	16		<b>91,467</b>	
17 Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17			
18 If Form 1040, line 34, is over \$126,600 (over \$63,300 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	(		)
19 Combine lines 15 through 18 . . . . . ▶	19	<b>122,467</b>		
20 Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20			
21 <b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	<b>122,467</b>		

### Part III Exemption Amount and Alternative Minimum Tax

22 <b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: left;"><b>IF your filing status is . . .</b></td> <td style="text-align: center;"><b>AND line 21 is not over . . .</b></td> <td style="text-align: center;"><b>THEN enter on line 22 . . .</b></td> </tr> <tr> <td>Single or head of household . . . . .</td> <td style="text-align: center;">\$112,500 . . . . .</td> <td style="text-align: center;">\$33,750</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er) . . . . .</td> <td style="text-align: center;">150,000 . . . . .</td> <td style="text-align: center;">45,000</td> </tr> <tr> <td>Married filing separately . . . . .</td> <td style="text-align: center;">75,000 . . . . .</td> <td style="text-align: center;">22,500</td> </tr> </table>	<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>	Single or head of household . . . . .	\$112,500 . . . . .	\$33,750	Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000	Married filing separately . . . . .	75,000 . . . . .	22,500			<b>45,000</b>	
<b>IF your filing status is . . .</b>	<b>AND line 21 is not over . . .</b>	<b>THEN enter on line 22 . . .</b>														
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750														
Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000														
Married filing separately . . . . .	75,000 . . . . .	22,500														
If line 21 is <b>over</b> the amount shown above for your filing status, see page 7 of the instructions.																
23 Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	<b>77,467</b>														
24 If you reported capital gain distributions directly on Form 1040, line 13, <b>or</b> you completed Schedule D (Form 1040) and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	<b>19,782</b>														
25 Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25															
26 Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	<b>19,782</b>														
27 Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	<b>16,137</b>														
28 <b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	<b>3,645</b>														

**Part IV** Line 24 Computation Using Maximum Capital Gains Rates

<i>Caution: If you did not complete Part IV of Schedule D (Form 1040), see page 8 of the instructions before you complete this part.</i>				
29	Enter the amount from line 23		29	<b>77,467</b>
30	Enter the amount from Schedule D (Form 1040), line 27 (as refigured for the AMT, if necessary). See page 8 of the instructions	30	<b>6,000</b>	
31	Enter the amount from Schedule D (Form 1040), line 25 (as refigured for the AMT, if necessary). See page 8 of the instructions	31		
32	Add lines 30 and 31	32	<b>6,000</b>	
33	Enter the amount from Schedule D (Form 1040), line 22 (as refigured for the AMT, if necessary). See page 8 of the instructions	33	<b>6,000</b>	
34	Enter the <b>smaller</b> of line 32 or line 33	34		<b>6,000</b>
35	Subtract line 34 from line 29. If zero or less, enter -0-	35		<b>71,467</b>
36	If line 35 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 35 by 26% (.26). Otherwise, multiply line 35 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result	36		<b>18,582</b>
37	Enter the amount from Schedule D (Form 1040), line 36 (as figured for the regular tax)	37	<b>0</b>	
38	Enter the <b>smallest</b> of line 29, line 30, or line 37	38	<b>0</b>	
39	Multiply line 38 by 10% (.10)	39		<b>0</b>
40	Enter the <b>smaller</b> of line 29 or line 30	40	<b>6,000</b>	
41	Enter the amount from line 38	41	<b>0</b>	
42	Subtract line 41 from line 40	42	<b>6,000</b>	
43	Multiply line 42 by 20% (.20)	43		<b>1,200</b>
<i>Note: If line 31 is zero or blank, go to line 48.</i>				
44	Enter the amount from line 29	44		
45	Add lines 35, 38, and 42	45		
46	Subtract line 45 from line 44	46		
47	Multiply line 46 by 25% (.25)	47		
48	Add lines 36, 39, 43, and 47	48		<b>19,782</b>
49	If line 29 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 29 by 26% (.26). Otherwise, multiply line 29 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result	49		<b>20,142</b>
50	Enter the <b>smaller</b> of line 48 or line 49 here and on line 24	50		<b>19,782</b>

### AMT CREDIT

The AMT credit allows taxpayers to reduce regular income tax liability to the extent they have previously paid AMT because of certain adjustment and preference items called deferral adjustments and preferences. The credit also includes any unallowed fuel credit for producing fuel from a nonconventional source.

The effect of the credit is to make part of the AMT paid an acceleration in the payment of regular tax rather than an addition to the regular tax. It is an acceleration because the tax must be paid in the year the AMT on the deferral items is due or the fuel credit is disallowed, but it does not increase taxes in the long run because the credit will reduce regular taxes in subsequent years.

The minimum tax credit is calculated by subtracting from the AMT actually due for each prior year (after 1986) the AMT that would have been due if the deferral adjustments and preferences had been excluded from the AMT calculation. In other words, the AMT credit is the amount of AMT caused by the deferral adjustments and preferences. The unallowed credit for producing fuel from a nonconventional source is then added [I.R.C. §53(a)].

# 1999 Workbook

**Example 11.** Jay and Dee Byrd are married and have two children. In 1998 Jay had a \$20,000 AMT adjustment from a trust. Jay and Dee filed a joint tax return for 1998 showing the following income, deductions, and taxes due.

Adjusted gross income (line 34 of Form 1040)	\$100,000
Less: Standard deduction (line 36 of Form 1040)	7,100
<b>Balance (line 37 of Form 1040)</b>	<b>\$ 92,900</b>
Less: Exemptions deduction (4 × \$2,700)	10,800
<b>Taxable income (line 39 of Form 1040)</b>	<b>\$ 82,100</b>
Regular tax (line 40 of Form 1040)	\$ 17,490
AMT (from line 28 of Form 6251 below)	2,010
<b>Total tax (line 56 of Form 1040)</b>	<b>\$ 19,500</b>

Form **6251**  
 Department of the Treasury  
 Internal Revenue Service (99)

## Alternative Minimum Tax—Individuals

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0227

1998

Attachment  
 Sequence No. **32**

Name(s) shown on Form 1040

**Jay Byrd (Example 11)**

Your social security number

### Part I Adjustments and Preferences

1 If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1	<b>7,100</b>	
2 Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2		
3 Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3		
4 Certain interest on a home mortgage not used to buy, build, or improve your home . . . . .	4		
5 Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5		
6 Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	( 0 )	
7 Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7		
8 Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8	0	
9 Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9	0	
10 Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10		
11 Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11	0	
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12	20,000	
13 Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13	0	
14 Other. Enter the amount, if any, for each item below and enter the total on line 14.			
a Circulation expenditures . . . . .			
b Depletion . . . . .		0	
c Depreciation (pre-1987) . . . . .		0	
d Installment sales . . . . .			
e Intangible drilling costs . . . . .		0	
f Large partnerships . . . . .			
g Long-term contracts . . . . .			
h Loss limitations . . . . .			
i Mining costs . . . . .			
j Patron's adjustment . . . . .			
k Pollution control facilities . . . . .			
l Research and experimental . . . . .			
m Section 1202 exclusion . . . . .		0	
n Tax shelter farm activities . . . . .			
o Related adjustments . . . . .			
14 Total . . . . .	14	0	
15 <b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	<b>27,100</b>	

### Part II Alternative Minimum Taxable Income

16 Enter the amount from Form 1040, line 37. If less than zero, enter as a (loss) . . . . . ▶	16	<b>92,900</b>	
17 Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17	0	
18 If Form 1040, line 34, is over \$124,500 (over \$62,250 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	( 0 )	
19 Combine lines 15 through 18 . . . . . ▶	19	<b>120,000</b>	
20 Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20		
21 <b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	<b>120,000</b>	



# 1999 Workbook

## Part III Exemption Amount and Alternative Minimum Tax

22	Exemption Amount. (If this form is for a child under age 14, see page 7 of the instructions.)																	
	<table border="0"> <tr> <td></td> <td style="text-align: center;">AND line 21 is</td> <td style="text-align: center;">THEN enter on</td> </tr> <tr> <td>IF your filing status is . . .</td> <td style="text-align: center;">not over . . .</td> <td style="text-align: center;">line 22 . . .</td> </tr> <tr> <td>Single or head of household . . . . .</td> <td style="text-align: right;">\$112,500 . . . . .</td> <td style="text-align: right;">\$33,750</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er) . . . . .</td> <td style="text-align: right;">150,000 . . . . .</td> <td style="text-align: right;">45,000</td> </tr> <tr> <td>Married filing separately. . . . .</td> <td style="text-align: right;">75,000 . . . . .</td> <td style="text-align: right;">22,500</td> </tr> </table>		AND line 21 is	THEN enter on	IF your filing status is . . .	not over . . .	line 22 . . .	Single or head of household . . . . .	\$112,500 . . . . .	\$33,750	Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000	Married filing separately. . . . .	75,000 . . . . .	22,500	22	<b>45,000</b>
	AND line 21 is	THEN enter on																
IF your filing status is . . .	not over . . .	line 22 . . .																
Single or head of household . . . . .	\$112,500 . . . . .	\$33,750																
Married filing jointly or qualifying widow(er) . . . . .	150,000 . . . . .	45,000																
Married filing separately. . . . .	75,000 . . . . .	22,500																
	If line 21 is <b>over</b> the amount shown above for your filing status, see page 7 of the instructions.																	
23	Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	<b>75,000</b>															
24	If you completed Schedule D (Form 1040), and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	<b>19,500</b>															
25	Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25																
26	Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	<b>19,500</b>															
27	Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	<b>17,490</b>															
28	<b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	<b>2,010</b>															

In 1999, Jay and Dee had the same income and deductions as they had in 1998, except that Jay did not have the \$20,000 AMT adjustment from the trust. Jay and Dee are allowed to claim a \$2,010 AMT credit on their 1999 income tax return, as shown below:

Adjusted gross income (line 34 of Form 1040)	\$100,000
Less: Standard deduction (line 36 of Form 1040)	7,200
Balance (line 37 of Form 1040)	\$ 92,800
Less: Exemptions deduction (4 × \$2,750)	11,000
Taxable income (line 39 of Form 1040)	\$ 81,800
Regular tax (line 40 of Form 1040)	\$ 17,315
AMT credit (from line 25 of Form 8801 below)	2,010
Total tax (line 56 of Form 1040)	\$ 15,305

**Observation.** The AMT did not permanently increase Jay and Dee's tax liability; it only accelerated \$2,010 of liability from 1999 into 1998. Their total taxes for the two years did not change since they were allowed a credit in 1999 equal to the AMT they paid in 1998.



# 1999 Workbook

Form **8801**

## Credit For Prior Year Minimum Tax— Individuals, Estates, and Trusts

OMB No. 1545-1073

1999

Attachment  
Sequence No. **74**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to your tax return.

Name(s) shown on return

**Jay and Dee Byrd (Example 11)**

Identifying number

**005 55 8801**

### Part I Net Minimum Tax on Exclusion Items

1 Combine lines 16 through 18 of your 1998 Form 6251. Estates and trusts, see instructions . . .	1	<b>92,900</b>	
2 Enter adjustments and preferences treated as exclusion items. See instructions . . . . .	2	<b>7,100</b>	
3 Minimum tax credit net operating loss deduction. See instructions . . . . .	3	( )	
4 Combine lines 1, 2, and 3. If zero or less, enter -0- here and on line 15 and go to Part II. If more than \$165,000 and you were married filing separately for 1998, see instructions . . . . .	4	<b>100,000</b>	
5 Enter: \$45,000 if married filing jointly or qualifying widow(er) for 1998; \$33,750 if single or head of household for 1998; or \$22,500 if married filing separately for 1998. Estates and trusts, enter \$22,500 . . . . .	5	<b>45,000</b>	
6 Enter: \$150,000 if married filing jointly or qualifying widow(er) for 1998; \$112,500 if single or head of household for 1998; or \$75,000 if married filing separately for 1998. Estates and trusts, enter \$75,000 . . . . .	6	<b>150,000</b>	
7 Subtract line 6 from line 4. If zero or less, enter -0- here and on line 8 and go to line 9 . . . . .	7	<b>0</b>	
8 Multiply line 7 by 25% (.25) . . . . .	8	<b>0</b>	
9 Subtract line 8 from line 5. If zero or less, enter -0-. If this form is for a child under age 14, see instructions . . . . .	9	<b>45,000</b>	
10 Subtract line 9 from line 4. If zero or less, enter -0- here and on line 15, and go to Part II. Form 1040NR filers, see instructions . . . . .	10	<b>55,000</b>	
11 If you completed Schedule D (Form 1040 or 1041) for 1998 and had an amount on line 25 or line 27 of Schedule D (Form 1040) (line 24 or line 26 of Schedule D (Form 1041)) or you would have had an amount on either of those lines had you completed Part IV of Schedule D (Form 1040) (or Part V of Schedule D (Form 1041)), go to Part III of Form 8801 to figure the amount to enter on this line. <b>All others:</b> Multiply line 10 by 26% (.26) if line 10 is: \$175,000 or less if single, head of household, married filing jointly, qualifying widow(er), or an estate or trust for 1998; or \$87,500 or less if married filing separately for 1998. <b>Otherwise,</b> multiply line 10 by 28% (.28) and subtract from the result: \$3,500 if single, head of household, married filing jointly, qualifying widow(er), or an estate or trust for 1998; or \$1,750 if married filing separately for 1998 . . . . .	11	<b>14,300</b>	
12 Minimum tax foreign tax credit on exclusion items. See instructions . . . . .	12	<b>0</b>	
13 Tentative minimum tax on exclusion items. Subtract line 12 from line 11 . . . . .	13	<b>14,300</b>	
14 Enter the amount from your 1998 Form 6251, line 27, or Form 1041, Schedule I, line 38 . . . . .	14	<b>17,490</b>	
15 <b>Net minimum tax on exclusion items.</b> Subtract line 14 from line 13. If zero or less, enter -0-	15	<b>0</b>	

### Part II Minimum Tax Credit and Carryforward to 2000

16 Enter the amount from your 1998 Form 6251, line 28, or Form 1041, Schedule I, line 39 . . . . .	16	<b>2,010</b>	
17 Enter the amount from line 15 above . . . . .	17	<b>0</b>	
18 Subtract line 17 from line 16. If less than zero, enter as a negative amount . . . . .	18	<b>2,010</b>	
19 <b>1998 minimum tax credit carryforward.</b> Enter the amount from your 1998 Form 8801, line 26 . . . . .	19	<b>0</b>	
20 Enter the total of your 1998 unallowed nonconventional source fuel credit and 1998 unallowed qualified electric vehicle credit. See instructions . . . . .	20		
21 Combine lines 18, 19, and 20. If zero or less, <b>stop here</b> and see instructions . . . . .	21	<b>2,010</b>	
22 Enter your 1999 regular income tax liability minus allowable credits. See instructions . . . . .	22	<b>17,315</b>	
23 Enter the amount from your 1999 Form 6251, line 26, or 1999 Form 1041, Schedule I, line 37 . . . . .	23	<b>14,300</b>	
24 Subtract line 23 from line 22. If zero or less, enter -0- . . . . .	24	<b>3,015</b>	
25 <b>Minimum tax credit.</b> Enter the <b>smaller</b> of line 21 or line 24. Also enter this amount on the appropriate line of your 1999 tax return. See instructions . . . . .	25	<b>2,010</b>	
26 <b>Minimum tax credit carryforward to 2000.</b> Subtract line 25 from line 21. See instructions . . . . .	26	<b>0</b>	

AMT adjustments and preferences in the year an AMT credit can be claimed can postpone the use of the credit.

# 1999 Workbook

**Example 12.** Assume the same facts as in Example 11, except that Jay had \$10,000 of AMT adjustments from a trust in 1999. That adjustment increases his tentative minimum tax for 1999 from \$14,300 to \$16,900. Consequently, the AMT credit that he can claim in 1999 is limited to \$415, as shown on the following Form 8801. The remaining \$1,595 of his \$2,010 credit is carried forward from 1999 to 2000.

Form <b>8801</b>  Department of the Treasury Internal Revenue Service (99)	<b>Credit For Prior Year Minimum Tax— Individuals, Estates, and Trusts</b>  ► Attach to your tax return.	OMB No. 1545-1073  <b>1999</b> Attachment Sequence No. 74
Name(s) shown on return <b>Jay and Dee Byrd (Example 12)</b>		Identifying number <b>005 55 8801</b>

**Part I Net Minimum Tax on Exclusion Items**

1 Combine lines 16 through 18 of your 1998 Form 6251. Estates and trusts, see instructions . . .	1	<b>92,900</b>	
2 Enter adjustments and preferences treated as exclusion items. See instructions . . .	2	<b>7,100</b>	
3 Minimum tax credit net operating loss deduction. See instructions . . .	3	( )	
4 Combine lines 1, 2, and 3. If zero or less, enter -0- here and on line 15 and go to Part II. If more than \$165,000 and you were married filing separately for 1998, see instructions . . .	4	<b>100,000</b>	
5 Enter: \$45,000 if married filing jointly or qualifying widow(er) for 1998; \$33,750 if single or head of household for 1998; or \$22,500 if married filing separately for 1998. Estates and trusts, enter \$22,500 . . .	5	<b>45,000</b>	
6 Enter: \$150,000 if married filing jointly or qualifying widow(er) for 1998; \$112,500 if single or head of household for 1998; or \$75,000 if married filing separately for 1998. Estates and trusts, enter \$75,000 . . .	6	<b>150,000</b>	
7 Subtract line 6 from line 4. If zero or less, enter -0- here and on line 8 and go to line 9 . . .	7	<b>0</b>	
8 Multiply line 7 by 25% (.25) . . .	8	<b>0</b>	
9 Subtract line 8 from line 5. If zero or less, enter -0-. If this form is for a child under age 14, see instructions . . .	9	<b>45,000</b>	
10 Subtract line 9 from line 4. If zero or less, enter -0- here and on line 15, and go to Part II. Form 1040NR filers, see instructions . . .	10	<b>55,000</b>	
11 If you completed Schedule D (Form 1040 or 1041) for 1998 and had an amount on line 25 or line 27 of Schedule D (Form 1040) (line 24 or line 26 of Schedule D (Form 1041)) or you would have had an amount on either of those lines had you completed Part IV of Schedule D (Form 1040) (or Part V of Schedule D (Form 1041)), go to Part III of Form 8801 to figure the amount to enter on this line. <b>All others:</b> Multiply line 10 by 26% (.26) if line 10 is: \$175,000 or less if single, head of household, married filing jointly, qualifying widow(er), or an estate or trust for 1998; or \$87,500 or less if married filing separately for 1998. <b>Otherwise,</b> multiply line 10 by 28% (.28) and subtract from the result: \$3,500 if single, head of household, married filing jointly, qualifying widow(er), or an estate or trust for 1998; or \$1,750 if married filing separately for 1998 . . .	11	<b>14,300</b>	
12 Minimum tax foreign tax credit on exclusion items. See instructions . . .	12	<b>0</b>	
13 Tentative minimum tax on exclusion items. Subtract line 12 from line 11 . . .	13	<b>14,300</b>	
14 Enter the amount from your 1998 Form 6251, line 27, or Form 1041, Schedule I, line 38 . . .	14	<b>17,490</b>	
15 <b>Net minimum tax on exclusion items.</b> Subtract line 14 from line 13. If zero or less, enter -0-	15	<b>0</b>	

**Part II Minimum Tax Credit and Carryforward to 2000**

16 Enter the amount from your 1998 Form 6251, line 28, or Form 1041, Schedule I, line 39 . . .	16	<b>2,010</b>	
17 Enter the amount from line 15 above . . .	17	<b>0</b>	
18 Subtract line 17 from line 16. If less than zero, enter as a negative amount . . .	18	<b>2,010</b>	
19 <b>1998 minimum tax credit carryforward.</b> Enter the amount from your 1998 Form 8801, line 26 . . .	19	<b>0</b>	
20 Enter the total of your 1998 unallowed nonconventional source fuel credit and 1998 unallowed qualified electric vehicle credit. See instructions . . .	20		
21 Combine lines 18, 19, and 20. If zero or less, <b>stop here</b> and see instructions . . .	21	<b>2,010</b>	
22 Enter your 1999 regular income tax liability minus allowable credits. See instructions . . .	22	<b>17,315</b>	
23 Enter the amount from your 1999 Form 6251, line 26, or 1999 Form 1041, Schedule I, line 37 . . .	23	<b>16,900</b>	
24 Subtract line 23 from line 22. If zero or less, enter -0- . . .	24	<b>415</b>	
25 <b>Minimum tax credit.</b> Enter the <b>smaller</b> of line 21 or line 24. Also enter this amount on the appropriate line of your 1999 tax return. See instructions . . .	25	<b>415</b>	
26 <b>Minimum tax credit carryforward to 2000.</b> Subtract line 25 from line 21. See instructions . . .	26	<b>1,595</b>	



# 1999 Workbook

**Practitioner Note.** Exclusion items to be entered on line 2 of Form 8801 are AMT adjustments and preferences for:

- The standard deductions
- Itemized deductions (including any investment interest expense reported on Schedule E)
- Charitable contributions of appreciated property
- Certain tax-exempt interest
- Depletion
- Any other adjustments related to exclusion items

## NEGATIVE AMT CREDIT

A confusing characteristic of the AMT credit is that some tax years can make a negative contribution to the AMT credit. That can occur because the deferral adjustment and preference items could be negative.

**Example 13.** Allie Gator is single and has a \$3,000 AMT credit carryover to 1999. She had the following AMT adjustments and preferences in 1998:

State and local taxes	\$12,000
Miscellaneous itemized deductions (hobby expenses)	18,600
Adjusted gain or loss	(5,000)
Net adjustments and preferences	<u>\$25,600</u>

Allie's income, deductions, and taxes due for 1998 are as follows:

Adjusted gross income (line 34 of Form 1040)		\$70,000
Less: Itemized deductions (line 36 of Form 1040)		
Real property taxes	5,000	
State income taxes	7,000	
Miscellaneous itemized deductions		
Hobby expenses	20,000	
2% of AGI	1,400	
Deductible amount		<u>18,600</u>
Total itemized deductions		<u>30,600</u>
Balance (line 37 of Form 1040)		\$39,400
Less: Exemption deductions		<u>2,700</u>
Taxable income (line 39 of Form 1040)		\$36,700
Regular tax (line 40 of Form 1040)		6,988
AMT (from line 28 of Form 6251 below)		<u>1,137</u>
Total tax (line 56 of Form 1040)		\$ 8,125

# 1999 Workbook

Form **6251**  
 Department of the Treasury  
 Internal Revenue Service (99)

## Alternative Minimum Tax—Individuals

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0227

**1998**

Attachment  
 Sequence No. **32**

Name(s) shown on Form 1040

**Allie Gator (Example 13)**

Your social security number

### Part I Adjustments and Preferences

1	If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6 . . . . .	1	
2	Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2½% of Form 1040, line 34 . . . . .	2	0
3	Taxes. Enter the amount from Schedule A (Form 1040), line 9 . . . . .	3	12,000
4	Certain interest on a home mortgage not used to buy, build, or improve your home . . . . .	4	0
5	Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26 . . . . .	5	18,600
6	Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21 . . . . .	6	( 0 )
7	Investment interest. Enter difference between regular tax and AMT deduction . . . . .	7	
8	Post-1986 depreciation. Enter difference between regular tax and AMT depreciation . . . . .	8	0
9	Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss . . . . .	9	-5,000
10	Incentive stock options. Enter excess of AMT income over regular tax income . . . . .	10	
11	Passive activities. Enter difference between AMT and regular tax income or loss . . . . .	11	0
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9 . . . . .	12	0
13	Tax-exempt interest from private activity bonds issued after 8/7/86 . . . . .	13	0
14	Other. Enter the amount, if any, for each item below and enter the total on line 14.		
	a Circulation expenditures . . . . . 0		
	b Depletion . . . . . 0		
	c Depreciation (pre-1987) . . . . . 0		
	d Installment sales . . . . . 0		
	e Intangible drilling costs . . . . . 0		
	f Large partnerships . . . . .		
	g Long-term contracts . . . . .		
	h Loss limitations . . . . .		
	i Mining costs . . . . .		
	j Patron's adjustment . . . . .		
	k Pollution control facilities . . . . .		
	l Research and experimental . . . . .		
	m Section 1202 exclusion . . . . . 0		
	n Tax shelter farm activities . . . . .		
	o Related adjustments . . . . .		
14		14	0
15	<b>Total Adjustments and Preferences.</b> Combine lines 1 through 14 . . . . . ▶	15	25,600

### Part II Alternative Minimum Taxable Income

16	Enter the amount from Form 1040, line 37. If less than zero, enter as a (loss) . . . . . ▶	16	39,400
17	Net operating loss deduction, if any, from Form 1040, line 21. Enter as a positive amount . . . . .	17	0
18	If Form 1040, line 34, is over \$124,500 (over \$62,250 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28 . . . . .	18	( 0 )
19	Combine lines 15 through 18 . . . . . ▶	19	65,000
20	Alternative tax net operating loss deduction. See page 7 of the instructions . . . . .	20	
21	<b>Alternative Minimum Taxable Income.</b> Subtract line 20 from line 19. (If married filing separately and line 21 is more than \$165,000, see page 7 of the instructions.) . . . . . ▶	21	65,000

### Part III Exemption Amount and Alternative Minimum Tax

22	<b>Exemption Amount.</b> (If this form is for a child under age 14, see page 7 of the instructions.)		
	<b>IF your filing status is . . . . . AND line 21 is not over . . . . . THEN enter on line 22 . . . . .</b>		
	Single or head of household . . . . . \$112,500 . . . . . \$33,750		
	Married filing jointly or qualifying widow(er) . . . . . 150,000 . . . . . 45,000		
	Married filing separately . . . . . 75,000 . . . . . 22,500		
	If line 21 is over the amount shown above for your filing status, see page 7 of the instructions.		
22		22	33,750
23	Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 . . . . . ▶	23	31,250
24	If you completed Schedule D (Form 1040), and have an amount on line 25 or line 27 (or would have had an amount on either line if you had completed Part IV) (as refigured for the AMT, if necessary), go to Part IV of Form 6251 to figure line 24. <b>All others:</b> If line 23 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result . . . . . ▶	24	8,125
25	Alternative minimum tax foreign tax credit. See page 8 of the instructions . . . . .	25	
26	Tentative minimum tax. Subtract line 25 from line 24 . . . . . ▶	26	8,125
27	Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46) . . . . .	27	6,988
28	<b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 51 . . . . . ▶	28	1,137

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# 1999 Workbook

In 1999, Allie had the same income, deductions, and AMT adjustments and preferences as she had in 1998. As shown on the following Form 8801, Allie has a negative \$1,300 AMT credit for 1999. That is due to her negative deferral adjustment of \$5,000 for AMT-adjusted gain in 1998.

Form **8801**  
Department of the Treasury  
Internal Revenue Service (99)  
Name(s) shown on return

## Credit For Prior Year Minimum Tax— Individuals, Estates, and Trusts

▶ Attach to your tax return.

OMB No. 1545-1073  
**1999**  
Attachment  
Sequence No. 74

**Allie Gator (Example 13)**

Identifying number  
**006 55 8801**

### Part I Net Minimum Tax on Exclusion Items

1	Combine lines 16 through 18 of your 1998 Form 6251. Estates and trusts, see instructions . . . . .	1	<b>39,400</b>
2	Enter adjustments and preferences treated as exclusion items. See instructions . . . . .	2	<b>30,600</b>
3	Minimum tax credit net operating loss deduction. See instructions . . . . .	3	( )
4	Combine lines 1, 2, and 3. If zero or less, enter -0- here and on line 15 and go to Part II. If more than \$165,000 and you were married filing separately for 1998, see instructions . . . . .	4	<b>70,000</b>
5	Enter: \$45,000 if married filing jointly or qualifying widow(er) for 1998; \$33,750 if single or head of household for 1998; or \$22,500 if married filing separately for 1998. Estates and trusts, enter \$22,500 . . . . .	5	<b>33,750</b>
6	Enter: \$150,000 if married filing jointly or qualifying widow(er) for 1998; \$112,500 if single or head of household for 1998; or \$75,000 if married filing separately for 1998. Estates and trusts, enter \$75,000 . . . . .	6	<b>112,500</b>
7	Subtract line 6 from line 4. If zero or less, enter -0- here and on line 8 and go to line 9 . . . . .	7	<b>0</b>
8	Multiply line 7 by 25% (.25) . . . . .	8	<b>0</b>
9	Subtract line 8 from line 5. If zero or less, enter -0-. If this form is for a child under age 14, see instructions . . . . .	9	<b>33,750</b>
10	Subtract line 9 from line 4. If zero or less, enter -0- here and on line 15, and go to Part II. Form 1040NR filers, see instructions . . . . .	10	<b>36,250</b>
11	If you completed Schedule D (Form 1040 or 1041) for 1998 and had an amount on line 25 or line 27 of Schedule D (Form 1040) (line 24 or line 26 of Schedule D (Form 1041)) or you would have had an amount on either of those lines had you completed Part IV of Schedule D (Form 1040) (or Part V of Schedule D (Form 1041)), go to Part III of Form 8801 to figure the amount to enter on this line. <b>All others:</b> Multiply line 10 by 26% (.26) if line 10 is: \$175,000 or less if single, head of household, married filing jointly, qualifying widow(er), or an estate or trust for 1998; or \$87,500 or less if married filing separately for 1998. <b>Otherwise,</b> multiply line 10 by 28% (.28) and subtract from the result: \$3,500 if single, head of household, married filing jointly, qualifying widow(er), or an estate or trust for 1998; or \$1,750 if married filing separately for 1998 . . . . .	11	<b>9,425</b>
12	Minimum tax foreign tax credit on exclusion items. See instructions . . . . .	12	
13	Tentative minimum tax on exclusion items. Subtract line 12 from line 11 . . . . .	13	<b>9,425</b>
14	Enter the amount from your 1998 Form 6251, line 27, or Form 1041, Schedule I, line 38 . . . . .	14	<b>6,988</b>
15	<b>Net minimum tax on exclusion items.</b> Subtract line 14 from line 13. If zero or less, enter -0-	15	<b>2,437</b>

### Part II Minimum Tax Credit and Carryforward to 2000

16	Enter the amount from your 1998 Form 6251, line 28, or Form 1041, Schedule I, line 39 . . . . .	16	<b>1,137</b>
17	Enter the amount from line 15 above . . . . .	17	<b>2,437</b>
18	Subtract line 17 from line 16. If less than zero, enter as a negative amount . . . . .	18	<b>&lt;1,300&gt;</b>
19	<b>1998 minimum tax credit carryforward.</b> Enter the amount from your 1998 Form 8801, line 26 . . . . .	19	<b>3,000</b>
20	Enter the total of your 1998 unallowed nonconventional source fuel credit and 1998 unallowed qualified electric vehicle credit. See instructions . . . . .	20	
21	Combine lines 18, 19, and 20. If zero or less, <b>stop here</b> and see instructions . . . . .	21	<b>1,700</b>
22	Enter your 1999 regular income tax liability minus allowable credits. See instructions . . . . .	22	<b>6,908</b>
23	Enter the amount from your 1999 Form 6251, line 26, or 1999 Form 1041, Schedule I, line 37 . . . . .	23	<b>8,125</b>
24	Subtract line 23 from line 22. If zero or less, enter -0- . . . . .	24	<b>0</b>
25	<b>Minimum tax credit.</b> Enter the <b>smaller</b> of line 21 or line 24. Also enter this amount on the appropriate line of your 1999 tax return. See instructions . . . . .	25	<b>0</b>
26	<b>Minimum tax credit carryforward to 2000.</b> Subtract line 25 from line 21. See instructions . . . . .	26	<b>1,700</b>

**Observation.** Note that Allie’s negative AMT credit from 1998 uses up \$1,300 of the AMT credit that was carried from 1998, but Allie does not get any tax benefit from that \$1,300.

## WHEN DOES FORM 8801 HAVE TO BE FILED?

The negative contribution to the AMT credit can occur even in years when there is no AMT liability. Consequently, there could technically be an AMT credit whether or not there was an AMT liability for years before the current year and after 1986 (see I.R.C. §53). However, the IRS does not require taxpayers to compute and keep track of adjusted net minimum tax that would make a negative contribution to AMT unless there is a positive minimum tax credit carried into the current year. The instructions for the 1998 Form 8801 state:

Form 8801 should be completed by individuals, estates, and trusts that had:

- An AMT liability in 1997 and adjustments or preferences (other than exclusion items) in 1997,
- A minimum tax credit carryforward from 1997 to 1998, or
- A nonconventional source fuel credit or a qualified electric vehicle credit not allowed for 1997 (see the instructions for line 20).

File Form 8801 only if line 21 is more than zero.

Consequently, a taxpayer does not need to make AMT credit calculations until the taxpayer has either an AMT liability or an unallowed credit for production of fuels from a nonconventional source in a year after 1986. If the taxpayer has one of those two items, the adjusted net minimum tax must be calculated even if there is no AMT liability since there may be an adjusted net minimum tax other than zero.

## MINIMUM TAX CREDIT NET OPERATING LOSS DEDUCTION

Line 3 of Form 8801 requires the preparer to enter an amount called the “minimum tax credit net operating loss deduction,” which is abbreviated MTCNOLD. The MTCNOLD is calculated in the same manner as the alternative tax net operating loss deduction, except that only the exclusion adjustments and preferences are used in the calculation.

# 1999 Workbook