Chapter 6: AMT for Individuals

Corrections were made to this material through January of 2012. No subsequent modifications were made.

The tax laws provide preferential treatment for certain types of income and allow special deductions and credits for certain types of expenses. Alternative minimum tax (AMT) is designed to ensure that taxpayers who benefit from these tax advantages pay at least a minimum amount of tax. A taxpayer who has income for regular tax purposes plus any applicable adjustments and preferences that exceed the AMT exemption is subject to AMT.

HISTORY

AMT was first enacted by Congress in 1969 to correct certain perceived abuses of the regular tax system when it was discovered that numerous high-income taxpayers did not pay **any** income tax.

Initially, AMT was a simple add-on tax. Over the years, changes to both regular tax and AMT have affected the application of AMT. Congress's goal in enacting AMT was to ensure that "no taxpayer with substantial income avoid significant tax liability by using exclusions, deductions, and credits."[1] Currently, AMT is a separate system of taxation parallel to the regular tax system. The AMT requires taxpayers to recalculate their taxes using alternative rules that tax certain types of income exempt from regular tax and that do not allow certain deductions and credits allowed for regular tax purposes. This creates a tax liability for a taxpayer who would otherwise pay little or no tax.

Historically, AMT has affected few taxpayers — less than 1% in any year before 2000 according to the Congressional Budget Office. However, each year the number of individual taxpayers affected by AMT has increased dramatically. The primary reason for the increase is that the income requirements and exemptions under AMT are not indexed for inflation. In her 2003 report to Congress, Nina Olson, the IRS National Taxpayer Advocate, labeled AMT "the most serious problem faced by taxpayers."

The current AMT system does not solve the original problem of ensuring that high-income taxpayers pay at least a minimum amount of tax. Eric Solomon, Assistant Treasury Secretary, reported to Congress, "In spite of the AMT, each year a very small percentage of high-income tax returns are filed reporting no income tax liability."[2]

AMT does not apply only to high-income taxpayers or taxpayers with substantial adjustments or preferences. AMT applies to all taxpayers. Planning for AMT has been difficult in recent years due to late legislative changes regarding AMT exemption amounts, which are discussed later in the chapter.

In one Tax Court case, the taxpayers had no adjustment or preference items other than the exemption amounts for themselves and their 10 children. The taxpayers were still subject to AMT.[3]

1. Tax Reform Act of 1986.
2. [www.treasury.gov/press-center/press-releases/Pages/hp299.aspx] Accessed on Jul. 19, 2011.
3. *David and Margaret Klaassen v. Comm'r,* TC Memo 1998-241 (Jul. 2, 1998).

In another Tax Court case, the taxpayer had relatively modest income (about $50,000); however, the taxpayer had approximately $33,000 of miscellaneous itemized deductions. Because miscellaneous itemized deductions are not deductible for AMT purposes, the taxpayer was subject to AMT. The taxpayer claimed he should not be subject to AMT because it was confusing and complex. The taxpayer also claimed he should not be liable for AMT because it effectively deprived him of the benefits of his itemized deductions. The Tax Court ruled that the taxpayer was subject to AMT. Additionally, the Tax Court stated the proper place to consider the taxpayer's complaint was in the halls of Congress and not Tax Court.[4]

Taxpayers have argued they were not subject to AMT because they are not within the group of high-income taxpayers Congress intended this tax to affect. The Tax Court has consistently rejected this argument.

CALCULATING AMT

Theoretically, all taxpayers are potentially subject to AMT. There are no automatic exclusions for taxpayers below a certain income level or in other economic circumstances. Hypothetically, all taxpayers must compute AMT to test for possible AMT liability.

AMT is calculated by adjusting the taxpayer's regular taxable income before personal exemptions and standard deductions with certain tax preferences and adjustments. These adjustments and preferences are discussed later. This adjusted income amount is called alternative minimum taxable income (AMTI).

The AMT exemption amounts for 2011 are as follows:

Single	$48,450
MFJ	74,450
MFS	37,225

The AMT exemption amount is subtracted from AMTI. The result is then multiplied by the AMT rate (26% or 28%). This results in the tentative minimum tax (TMT).

The regular tax is subtracted from the TMT. The result is AMT.

The above explanation of AMT can be illustrated as follows.

	Regular taxable income before personal exemptions and standard deductions
±	Adjustments
+	Preferences
	AMTI

	AMTI
−	AMT exemption
	Subtotal

Subtotal × AMT Tax Rate = TMT

	TMT
−	Regular tax
	AMT

4. *James Medis v. Comm'r,* TC Summ. Op. 2004-141 (Oct. 13, 2004).

AMT is computed using Form 6251, *Alternative Minimum Tax — Individuals.*

Form **6251** | **Alternative Minimum Tax—Individuals** | OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

▶ See separate instructions.
▶ Attach to Form 1040 or Form 1040NR.

2010
Attachment Sequence No. **32**

Name(s) shown on Form 1040 or Form 1040NR | **Your social security number**

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 6. (If less than zero, enter as a negative amount.)	1	
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4, **or** 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), lines 5, 6, and 8	3	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If filing Schedule L (Form 1040A or 1040), enter as a negative amount the sum of lines 6 and 17 from that schedule	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock (7% of gain excluded under section 1202)	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $219,900, see page 8 of the instructions.)	28	

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2010, see page 8 of the instructions.)

IF your filing status is . . .	**AND line 28 is not over . . .**	**THEN enter on line 29 . . .**
Single or head of household	$112,500	$47,450
Married filing jointly or qualifying widow(er)	150,000	72,450
Married filing separately	75,000	36,225

If line 28 is **over** the amount shown above for your filing status, see page 8 of the instructions. — **29**

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 33 and 35 and skip the rest of Part II	30	
31	• If you are filing Form 2555 or 2555-EZ, see page 9 of the instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 54 here. • **All others:** If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.	31	
32	Alternative minimum tax foreign tax credit (see page 9 of the instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see page 11 of the instructions)	34	
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	

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

36	Enter the amount from Form 6251, line 30. If you are filing Form 2555 or 2555-EZ, enter the amount from line 3 of the worksheet on page 9 of the instructions	36	
37	Enter the amount from line 6 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 13 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see page 11 of the instructions). If you are filing Form 2555 or 2555-EZ, see page 11 of the instructions for the amount to enter	37	
38	Enter the amount from Schedule D (Form 1040), line 19 (as refigured for the AMT, if necessary) (see page 11 of the instructions). If you are filing Form 2555 or 2555-EZ, see page 11 of the instructions for the amount to enter	38	
39	If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 38, and enter the **smaller** of that result or the amount from line 10 of the Schedule D Tax Worksheet (as refigured for the AMT, if necessary). If you are filing Form 2555 or 2555-EZ, see page 11 of the instructions for the amount to enter	39	
40	Enter the **smaller** of line 36 or line 39	40	
41	Subtract line 40 from line 36	41	
42	If line 41 is $175,000 or less ($87,500 or less if married filing separately), multiply line 41 by 26% (.26). Otherwise, multiply line 41 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result ▶	42	
43	Enter: • $68,000 if married filing jointly or qualifying widow(er), • $34,000 if single or married filing separately, or • $45,550 if head of household.	43	
44	Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 14 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter -0-	44	
45	Subtract line 44 from line 43. If zero or less, enter -0-	45	
46	Enter the **smaller** of line 36 or line 37	46	
47	Enter the **smaller** of line 45 or line 46	47	
48	Subtract line 47 from line 46	48	
49	Multiply line 48 by 15% (.15) ▶	49	
	If line 38 is zero or blank, skip lines 50 and 51 and go to line 52. Otherwise, go to line 50.		
50	Subtract line 46 from line 40	50	
51	Multiply line 50 by 25% (.25) ▶	51	
52	Add lines 42, 49, and 51	52	
53	If line 36 is $175,000 or less ($87,500 or less if married filing separately), multiply line 36 by 26% (.26). Otherwise, multiply line 36 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result	53	
54	Enter the **smaller** of line 52 or line 53 here and on line 31. If you are filing Form 2555 or 2555-EZ, do not enter this amount on line 31. Instead, enter it on line 4 of the worksheet on page 9 of the instructions	54	

Form **6251** (2010)

Form 6251 has three parts.

- Part I identifies and computes adjustments, preference items, and computes AMTI.
- Part II identifies the taxpayer's exemption amount and computes AMT owed by the taxpayer.
- Part III computes AMT when the taxpayer has qualified dividends or capital gains.

Although AMT is computed separately from regular tax, IRS regulations require that all Code provisions that apply for regular tax purposes also apply for AMT purposes, unless specifically modified by the Code, regulations, or administrative pronouncements. This means that regular tax AGI is used to compute AMT whenever an AMT computation relies on AGI.[5]

ADJUSTMENTS AND PREFERENCES

Adjustments are items of income and deductions that are computed differently for AMT than for regular tax purposes. They can increase or decrease AMTI.

Preferences are items receiving preferential tax treatment for regular tax purposes but not for AMT purposes. They can only increase AMTI.

Adjustments and preferences can be either deferral items (timing differences) or exclusion items (permanent differences). Deferral items generate a minimum tax credit which can be used to reduce regular tax in future years. Exclusion items do not affect the minimum tax credit.

> **Note.** The minimum tax credit is discussed later in this chapter.

Common Adjustments and Preferences

The most common adjustments and preference items are the following.

1. Personal exemptions
2. Standard deduction
3. Medical expenses
4. Itemized taxes
5. Home mortgage interest
6. Miscellaneous itemized deductions
7. Tax refunds
8. Incentive stock options

Personal Exemptions. In 2011 for regular tax purposes, a personal exemption deduction of $3,700 is allowed for the taxpayer, their spouse, and each qualifying dependent. Personal exemptions are not deductible for AMT purposes.[6]

Line 1 on Form 6251 starts with adjusted income prior to the deduction for personal exemptions.

The adjustment for personal exemptions is an exclusion preference. Therefore, it does not create a minimum tax credit.

Tax Planning. Taxpayers subject to AMT derive no federal tax benefit from personal exemptions they may be eligible to claim. Taxpayers claiming exemptions in divorce situations and taxpayers claiming exemptions under multiple support agreements may want to consider allowing another taxpayer to claim the personal exemption. In making this decision, both federal and state income taxes should be considered. The easiest way to do this is to compute the return twice — claiming the exemption and not claiming the exemption. Then compare the total federal and state income tax liabilities under the two scenarios.

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5. Treas. Reg. §1.55-1.
6. IRC §56(b)(1)(E).

Example 1. Scott and Tina, who are both in the 28% bracket for regular tax purposes, are getting divorced. They plan to alternate claiming the exemption for their daughter; however, they have been arguing over who will use the exemption first.

Because Scott is in an AMT situation, his federal income tax is exactly the same whether or not he claims the exemption. His tax return preparer recommends that Scott allow Tina to claim the exemption for their daughter during the first year.

Standard Deduction. For regular tax purposes, taxpayers can itemize their allowable personal deductions or claim a standard deduction. In 2011, the standard deduction amounts are as follows.

Filing Status	Standard Deduction
Single	$ 5,800
MFJ, QW	11,600
MFS	5,800
HoH	8,500

For regular tax purposes, taxpayers who are age 65 or older or blind can increase the amount of their standard deduction. In 2011, the additional deduction amounts are as follows.

Filing Status	Additional Deduction
Single	$1,450
MFJ, MFS, QW	1,150
HoH	1,450

The standard deduction is not allowed for AMT purposes.[7] Taxpayers who claim the standard deduction are required to add the entire amount back to taxable income.

Line 1 on Form 6251 starts with adjusted income prior to the subtraction for the standard deduction.

The adjustment for the standard deduction is an exclusion preference. Therefore, it does not create a minimum tax credit.

Typically, tax preparation software automatically computes this adjustment on Form 6251. Most tax preparation software programs optimize the choice of claiming either the standard deduction or itemizing deductions for regular tax purposes. If the taxpayer is in an AMT situation, the tax return preparer needs to verify the method chosen is the best for AMT purposes. Most tax software preparation programs do not automatically optimize this choice when the taxpayer is subject to AMT. The return preparer may need to override the software's default setting in this situation.

Tax Planning. Taxpayers claiming the standard deduction should consider electing to itemize even though their itemized deductions are less than the standard deduction. Some of their itemized deductions may be allowed for AMT purposes. To make this election, simply claim the itemized deductions and check the box on line 30 of Schedule A. It is critical that state taxes also be considered before making this election, because many states require the same method (standard or itemized deductions) be used on the state return.

Form 6251 instructions state that taxpayers who claim the standard deduction for regular tax purposes cannot itemize for AMT purposes. This prohibition is also supported by the Tax Court.[8]

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7. IRC §56(b)(1)(E).

8. *David Marx v. Comm'r,* TC Summ. Op. 2003-23 (Mar. 19, 2003).

Example 2. Mike is single. In 2011, his only income consists of $50,000 in wages. His standard deduction of $5,800 is larger than his itemized deductions of $4,700 ($2,700 taxes + $2,000 charitable contributions).

Mike also has a $25,000 AMT adjustment for the exercise of incentive stock options.

Mike's total tax when claiming the standard deduction is computed as follows:

AGI	$50,000
Standard deduction	(5,800)
Exemption	(3,700)
Taxable income	$40,500
Regular tax	$ 6,250
AMT	653
Total tax	$ 6,903

Example 3. Use the same facts as **Example 2,** except Mike elects to itemize his deductions. His total tax is computed as follows:

AGI	$50,000
Itemized deductions	(4,700)
Exemption	(3,700)
Taxable income	$41,600
Regular tax	$ 6,525
AMT	0
Total tax	$ 6,525

Medical Expenses. For regular tax purposes, unreimbursed medical expenses exceeding 7.5% of AGI are an itemized deduction. For AMT purposes only, those medical expenses exceeding 10% of AGI are deductible.[9]

Line 2 of Form 6251 is completed by entering the lesser of 2.5% of AGI or the amount of medical expenses actually allowed on Schedule A.

The adjustment for medical expenses is an exclusion preference. Therefore, it does not create a minimum tax credit.

Typically, tax preparation software automatically computes this adjustment on Form 6251.

Example 4. Nathan has $6,000 of medical expenses. His AGI is $50,000. For regular tax purposes, his deductible medical expenses are $2,250 ($6,000 – ($50,000 × 7.5%)). For AMT purposes his deductible medical expenses are $1,000 ($6,000 – ($50,000 × 10%)). Therefore, medical expenses of $1,250 are added back as an adjustment on Form 6251.

Tax Planning. Taxpayers subject to AMT who have large medical expenses should maximize their utilization of pre-tax medical plans such as health savings accounts (HSA), medical savings accounts (MSA), health flexible spending accounts (FSA), health reimbursement arrangements (HRA), and medical reimbursement plans. Medical expenses paid using one of these plans are essentially deductible for both regular tax and AMT purposes.

Example 5. Use the same facts as **Example 4,** except Nathan paid his $6,000 of medical expenses using one of his employer's pre-tax health plans. His AGI is $44,000 instead of $50,000. Consequently, all of his medical expenses are transferred to above-the-line deductions and can be used with both regular tax and AMT.

9. IRC §56(b)(1)(B).

Itemized Taxes. For regular tax purposes, itemized deductions are allowed for state and local income or sales taxes, real estate taxes, and personal property taxes. None of these taxes are an allowable deduction for AMT purposes.[10] Taxpayers in high tax states, such as California and New York, are clearly at a disadvantage because of this adjustment.

Line 3 of Form 6251 is completed by entering the amount of taxes claimed as an itemized deduction, except for federal estate tax paid on income in respect of a decedent (IRD) and generation-skipping transfer taxes paid on income distributions.

The adjustment for taxes is an exclusion preference. Therefore, it does not create a minimum tax credit.

Typically, tax preparation software automatically computes this adjustment on Form 6251.

Any taxes deducted in computing AGI are not an adjustment for AMT purposes.[11] Taxes other than those deducted on Schedule A are not part of this adjustment.

Example 6. Laurie claims state income taxes of $2,500 and real estate taxes of $4,250 on her Schedule A. She also claims real estate taxes of $3,100 on her Schedule E.

For AMT purposes, Laurie needs to add back the $6,750 of taxes she deducted on Schedule A. The $3,100 of taxes she deducted on Schedule E are not an AMT adjustment.

Tax Planning. There are several planning strategies for tax expenses.

1. Paying and deducting taxes in the optimum year
2. Deducting taxes above-the-line
3. Capitalizing allowable taxes
4. Reducing state income taxes

Strategy 1 determines the optimum tax year for the expense payment in order to avoid wasting the regular tax payments. There is no tax benefit in prepaying the fourth quarter state estimated tax payment for taxpayers in an AMT situation. Taxpayers who are not in an AMT situation in the current year may want to prepay their fourth quarter state estimated tax payment if they are likely to be subject to AMT in the following year. This same strategy works for real estate taxes and personal property taxes when the allowable payment period extends over two calendar years.

Example 7. Katie plans to exercise her ISOs as soon as she is eligible in March 2012. Preliminary tax planning indicates that exercising the options will put her in an AMT situation in 2012. Katie should prepay her fourth quarter state estimated tax payment before December 31, 2011. In doing so, Katie receives the benefit of the regular tax deduction on her 2011 return. This deduction would be wasted on her 2012 return because of the AMT situation.

Strategy 2 involves an above-the-line deduction of state and local taxes. While this is good basic tax planning, it is even more critical when the taxpayer is subject to AMT. A portion of the personal property tax paid on vehicles is deductible on Schedule C for taxpayers claiming business mileage expenses on Schedule C. A portion of real estate taxes paid is deductible on Schedule C for taxpayers claiming an office-in-home deduction on Schedule C.

Example 8. Due to unusual circumstances, Elizabeth's Schedule C shows a loss. Elizabeth is in an AMT situation. She should still claim her office-in-home deduction. Without the office-in-home deduction, she would receive no tax benefit from the business portion of her real estate taxes.

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10. IRC §56(b)(1)(A)(ii).

11. IRC §56(b)(1)(A).

Strategy 3 involves capitalizing allowable taxes when the tax benefit for a current deduction is wasted due to AMT. Taxes can be capitalized on unproductive and unimproved land.[12] **This election is made on a yearly basis[13] by attaching a statement to the original or amended return filed by the original or extended due date.** This election should only be made when the taxpayer is in an AMT or NOL situation, because a current deduction against regular income tax rates is more beneficial than an increase in basis that reduces capital gain tax rates.

Example 9. Jasmine paid $10,000 of real estate taxes on unimproved and unproductive land in both 2010 and 2011. The property was sold in 2011. Jasmine is in the 33% federal bracket in both years for regular taxes and the 15% bracket for capital gains. **Jasmine is subject to AMT in 2010 but not in 2011.**

She did not make the election to capitalize in either year. There was no tax savings in 2010. In 2011, Jasmine saves $3,333 in income taxes for the real estate tax deduction ($10,000 real estate tax deduction × 33% tax rate). There is no impact on the capital gains. The total tax benefit is $3,333.

Example 10. Use the same facts as **Example 9,** except Jasmine elects to capitalize in both years. The property's basis increases by $20,000. This results in income tax savings of $3,000 on the disposition of the property ($20,000 basis increase × 15% capital gains tax rate). The total tax benefit is $3,000.

Example 11. Use the same facts as **Example 9,** except Jasmine elects to capitalize in 2010 and not in 2011. Jasmine receives a tax savings of $3,333 in 2011 for the real estate tax deduction. The property's basis also increases by $10,000, which results in income tax savings of $1,500 on the disposition of the property ($10,000 basis increase × 15% capital gains tax rate). The total tax benefit is $4,833 ($3,333 + $1,500).

Strategy 4 involves reducing state income taxes if federal taxes will remain the same because of AMT. Currently, taxpayers can deduct either state and local income taxes or state and local sales taxes as an itemized deduction. Many states allow itemized deductions on the state return except for state and local income taxes. When a taxpayer is in an AMT situation, their federal income tax is usually the same whether they claim the deduction for income or sales taxes. In those situations, the taxpayers should claim the deduction for sales taxes (even if it is lower) in order to reduce the income tax on their state return.

Home Mortgage Interest. For regular tax purposes, taxpayers can deduct qualified home mortgage interest on their principal residence and one secondary home.[14] Qualified home mortgage interest can also include acquisition debt; this is interest on the home mortgage used to acquire, construct, or improve the residence. The mortgage must be secured by that residence. Total acquisition indebtedness is limited to $1 million.[15]

For regular tax purposes, taxpayers can also deduct interest on a home equity loan regardless of how the loan proceeds were spent. Home equity indebtedness is defined as interest not qualifying as acquisition indebtedness that is secured by the residence. Total home equity indebtedness is limited to $100,000.[16]

Home mortgage indebtedness incurred in connection with a divorce or legal separation is considered acquisition indebtedness. If one spouse incurs debt to pay the other spouse a lump sum for their interest in the marital home, that debt is considered acquisition debt and the interest is deductible for both regular tax and AMT purposes.

For AMT purposes, interest on home equity indebtedness is not deductible.

Note. Any portion of a home equity loan that was used to improve the residence is treated as acquisition indebtedness and not as home equity indebtedness.[17]

12. Treas. Reg. §1.266-1(b)(1)(i).
13. Treas. Reg. §1.266-1(c)(3).
14. IRC§ 163(h)(3)(A)(i).
15. IRC§ 163(h)(3)(B)(ii).
16. IRC§ 163(h)(3)(C)(ii).
17. IRC§ 56(e)(1).

Example 12. David and Margo deduct $12,000 of home mortgage interest on their Schedule A. The interest is composed of $10,000 from the original mortgage used to acquire the home and $2,000 from a home equity loan.

They use the proceeds from the home equity loan to add a bathroom to the residence. No AMT adjustment is required because the proceeds from the home equity loan were used to improve the residence.

Example 13. Use the same facts as **Example 12,** except David and Margo use the home equity loan to purchase a new car. Consequently, there is a $2,000 AMT adjustment. This is illustrated using the worksheet from the Form 6251 instructions.

Home Mortgage Interest Adjustment Worksheet—Line 4 *Keep for Your Records*

1. Enter the total of the home mortgage interest you deducted on lines 10 through 12 of Schedule A (Form 1040) and any mortgage insurance premiums you deducted on line 13 of Schedule A (Form 1040)			**1.**	12,000
2. Enter the part, if any, of the interest included on line 1 above that was paid on an eligible mortgage (defined on this page). Include any mortgage insurance premiums included on line 1 above that were paid in connection with an eligible mortgage	**2.**	10,000		
3. Enter the part, if any, of the interest included on line 1 above that was paid on a mortgage whose proceeds were used in a refinancing (including a second or later refinancing) of an eligible mortgage. Include any mortgage insurance premiums included on line 1 above that were paid in connection with such a mortgage. Do not include any interest paid on (or any mortgage insurance premiums paid in connection with) the part of the balance of the new mortgage that exceeded the balance of the original eligible mortgage immediately before it was refinanced (or, if smaller, the balance of any prior refinanced mortgage immediately before that mortgage was refinanced)	**3.**			
4. Enter the part, if any, of the interest included on line 1 above that was paid on a mortgage: • Taken out before July 1, 1982, and • Secured, at the time the mortgage was taken out, by your main home or a qualified dwelling used by you or your family (see definitions on this page). Do not include any amount entered on line 2 or line 3 above	**4.**			
5. Add lines 2 through 4			**5.**	10,000
6. Subtract line 5 from line 1 and enter the result on Form 6251, line 4			**6.**	2,000

For AMT purposes, interest on a second home is only deductible if the second home is a qualified dwelling. A **qualified dwelling** is any house, apartment, condominium, or mobile home not used on a transient basis.[18] For regular tax purposes, interest paid on a boat or motor home can qualify as home mortgage interest. However, interest paid on a boat or motor home used as a second home is not deductible for AMT purposes.[19]

Example 14. Matthew purchases a boat that he uses as his second home. The boat has sleeping, cooking, and toilet facilities. Matthew pays $4,000 interest from the acquisition loan he secured by the boat. Matthew is allowed to deduct the $4,000 interest for regular tax purposes but not for AMT purposes.

Interest paid on a loan that is refinanced more than once retains its qualified home mortgage interest status to the extent that the loan amount is not increased.[20]

18. IRC §56(e)(2).

19. IRC §56(e)(2)(D).

20. Rev. Rul. 2005-11, 2005-14 IRB 816.

Example 15. In 1998, Oleg financed the original purchase of his home with a $100,000 mortgage. In 2011, when his mortgage balance was $80,000, Oleg refinanced and received a new loan for $110,000. For AMT purposes, Oleg can only deduct interest on $80,000 of his new mortgage unless the additional proceeds were used to buy, build, or improve a qualified dwelling.

Line 4 of Form 6251 is completed by entering the amount of home mortgage interest deducted on Schedule A that is not deductible for AMT purposes (i.e., home equity indebtedness and acquisition debt on a second home that is not a qualified dwelling).

The adjustment for home mortgage interest is an exclusion preference. Therefore, it does not create a minimum tax credit.

Observation. This adjustment must be **manually** calculated and entered in most tax preparation software programs.

Tax Planning. There are several tax planning strategies for home mortgage interest expense. These strategies include the following.

1. **Paying off home equity indebtedness** because taxpayers do not obtain a tax benefit from the interest expense. (Any portion of a home equity loan that was used to improve the residence is treated as acquisition indebtedness and not as home equity indebtedness.)
2. **Converting the nonqualified dwelling to their principal residence.** (The AMT interest restriction on transient residences does not apply to principal residences.)
3. **Applying the interest tracing rules to home equity proceeds** whenever possible. (If the interest can be traced to an investment, it can be classified as investment interest. If the interest can be traced to a passive activity, it can be classified as passive activity interest. If the interest can be traced to a business, it can be classified as business interest. These types of interest must be recalculated for AMT purposes.)
4. **Maintaining the necessary records to properly trace debt repayments.** Amounts allocated to personal expenditures are treated as repaid first.[21] Tracking repayment of personal expenditure debt will eventually reduce the debt to the point where it is entirely deductible for both regular tax and AMT.

Example 16. In 1998, Olive financed the original purchase of her home with a $100,000 mortgage. In 2011, when her mortgage balance was $80,000, Olive refinanced and received a new loan for $110,000. She used the additional cash proceeds for personal purposes.

This new loan has two components — $80,000 of acquisition debt (deductible for both regular and AMT tax purposes) and $30,000 of home equity debt (not deductible for AMT purposes).

In 2012, Olive makes principal payments totaling $2,000. The two components of her loan are now $80,000 of acquisition debt and $28,000 of home equity debt.

Miscellaneous Itemized Deductions. Miscellaneous itemized deductions in excess of 2% of AGI are deductible for regular tax purposes. These deductions are **not allowed** for AMT purposes.[22] It is critical to properly classify deductions for regular tax purposes. Not all miscellaneous itemized deductions are subject to the 2% rule. Miscellaneous itemized deductions not subject to the 2% rule are not an AMT adjustment. These include such items as gambling losses and the deduction for estate tax paid on IRD.

Line 5 of Form 6251 is completed by entering the entire amount of miscellaneous itemized deductions subject to the 2% of AGI limitation that was allowed for regular tax purposes.

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21. Temp. Treas. Reg. §1.163-8T(d)(1).

22. IRC §56(b)(1)(a)(i).

Example 17. Bonnie's AGI is $30,000, and she claimed $3,000 of miscellaneous itemized deductions. For regular tax purposes, Bonnie has a $2,400 deduction for miscellaneous items ($3,000 – ($30,000 × 2%)). For AMT purposes, no deduction is allowed. Bonnie must enter $2,400 on line 5 of Form 6251.

The adjustment for miscellaneous itemized deductions is an exclusion preference. Therefore, it does not create a minimum tax credit.

Typically, tax preparation software automatically computes this adjustment on Form 6251.

Tax Planning. There are several tax planning strategies depending upon the particular miscellaneous itemized deduction.

1. Unreimbursed employee business expenses for teachers
2. Tax preparation fees
3. Unreimbursed employee business expenses
4. Legal fees

Teachers with unreimbursed employee business expenses in excess of the amount allowable as an adjustment to income may be able to claim these expenses as a charitable contribution. Using this strategy makes the expenditure deductible for both regular tax and AMT purposes. The school must be a qualifying IRC §501(c)(3) organization, and the expenditure must meet all the charitable contribution requirements.

Example 18. Karen, a second grade teacher, spent $400 on classroom supplies. Because Karen is subject to AMT this year, she obtains no tax benefit from $150 of her $400 expenditure ($250 of her $400 expenditure is deductible as an adjustment to income).

Karen otherwise meets the charitable contribution requirement, which allows her to deduct the $150 as a charitable contribution.

The portion of **accounting and tax preparation fees** that relate to schedules other than Schedule A should be deducted on those schedules instead of as a miscellaneous itemized deduction. By using this strategy, the fees are deductible for both regular tax and AMT purposes.

Example 19. John pays $900 for preparation of his tax return, which contains two rental properties. John is in an AMT situation. If he claims the entire $900 as a miscellaneous itemized deduction, he will receive no tax benefit. However, if he claims $100 as a miscellaneous itemized deduction and $400 as an expense on each rental property, then $800 is deductible for both regular and AMT tax purposes.

Taxpayers with **substantial unreimbursed employee business expenses** could renegotiate their overall compensation package and have these expenses paid by the employer. The employer's cash outlay is not increased if they reduce taxable wages and pay the business expenses directly or reimburse them through an accountable plan.[23] This effectively moves the deduction from a miscellaneous itemized deduction (limited deduction for regular tax purposes and not deductible for AMT purposes) to a deduction in computing AGI (deductible for both regular tax and AMT purposes).

23. IRS Pub. 463, *Travel, Entertainment, Gift and Car Expenses.*

Example 20. Caitlin is an outside salesperson for BAD, Inc. BAD gives her $1,500 per month as a car allowance. BAD included this amount in Caitlin's Form W-2 and told her she could deduct her business mileage on her tax return.

Caitlin has several nasty surprises when she meets with her tax return preparer. First, she discovers that because of the 2% of AGI limitation, she does not receive a tax benefit for all her business mileage expenses.

Next she discovers that because she is subject to AMT, she not only does not receive a tax benefit for **any** of her business mileage expenses, she also has to pay tax on the $18,000 car allowance she received.

If BAD establishes an accountable expense reimbursement plan, BAD could reduce Caitlin's compensation by $18,000 and reimburse her for up to $18,000 of documented business expenses. Caitlin's tax situation would improve because her taxable income is reduced by $18,000, and she is no longer subject to AMT. BAD may also benefit from reduced employment taxes.

Legal fees associated with taxable personal settlements are deducted as a miscellaneous itemized deduction subject to the 2% limitation unless the settlement is the result of "unlawful discrimination." Legal fees for unlawful discrimination[24] suits are deductible as an adjustment to income.[25] Whenever possible, a legal settlement should be structured so the legal fees qualify as an adjustment to income.

Another possibility is to structure the legal settlement to include reimbursement of legal fees. Under the tax benefit rule, reimbursements of expenses that are not tax deductible are not income.

Tax Refunds. State and local income tax refunds are not considered income for AMT purposes because the taxes are not allowed as a deduction for AMT purposes. This exclusion applies regardless of whether the taxpayer was subject to AMT in the prior year.

Example 21. In 2010, Tyrell claimed an $8,000 deduction for state and local income taxes. He was not subject to AMT.

In 2011, Tyrell receives a $2,000 state and local income tax refund. He reports this $2,000 as income for regular tax purposes, and he is allowed to exclude this $2,000 from income for AMT purposes.

If a taxpayer is subject to AMT in the year the taxes are deducted for regular tax purposes, then to the extent no tax benefit was received from the deduction, the refund is excluded from income for both regular tax and AMT purposes.[26]

Example 22. In 2010, Kalli claimed an $8,000 deduction for state and local income taxes. However, because she was in an AMT situation, she could not deduct these taxes for AMT purposes.

In 2011, Kalli receives a $2,000 state and local income tax refund. Because she received no tax benefit from the deduction, she is allowed to exclude this $2,000 from income for both regular tax and AMT purposes.

Line 7 of Form 6251 is completed by entering any state and local income tax refunds included as income on line 10 of Form 1040. Also entered are any tax refunds, such as personal property tax refunds and real property tax refunds that are included as other income on line 21 of Form 1040. A description is written next to line 21 to explain the amount (e.g., "real property").

24. IRC §62(e).

25. IRC §62(a)(20).

26. IRS Pub. 525, *Taxable and Nontaxable Income.*

Example 23. On July 1, 2010, Elian pays real estate taxes of $2,400 on his personal residence. He claims the $2,400 as a deduction on his 2010 Schedule A. On January 31, 2011, Elian sells his personal residence and is reimbursed $1,000 for the real estate taxes he paid in 2010. Elian does not purchase a replacement residence.

Many tax preparers net real estate taxes paid and reimbursed in the same tax year. This does not work for Elian because the Schedule A deduction for real estate taxes is a **negative** $1,000.

IRS instructions indicate this real estate tax refund should be reported as other income on line 21 of Form 1040. This tax refund is considered income for regular tax purposes but is not considered income for AMT purposes.

The adjustment for tax refunds is an exclusion preference. Therefore, it does not create a minimum tax credit.

Typically, tax preparation software automatically computes this adjustment for tax refunds for state and local income tax. Tax refunds included in other income are not automatically picked up by the software. The return preparer should review the software's instructions in order to properly report these amounts.

Incentive Stock Options. For regular tax purposes, employees can defer income tax on income from incentive stock options (ISO) until they sell the stock. The employee is not taxed on either the receipt of the option or the subsequent exercise of the option. It is only when the stock is sold that the employee is taxed on the difference between the sales price and the amount the employee paid when they exercised the option.

For AMT purposes, the difference between the option price and the FMV at the time of exercise is an AMT adjustment.

Example 24. Mike was granted an option from his employer, BIG, Inc., to purchase 1,000 shares of stock at $50 per share. Several years later, Mike exercised his option when the stock was selling for $80 per share. When Mike exercised the option, he had a $30,000 AMT adjustment (($80 − $50) × 1,000 shares).

The AMT basis in stock acquired by exercising an ISO is increased by the amount of the AMT adjustment.

Example 25. Use the same facts as **Example 24.** Mike's basis in BIG, Inc., stock is $50 per share for regular tax purposes. His basis is $80 per share for AMT purposes. When Mike sells the stock for $90 per share, he has a gain of $40 per share for regular tax purposes and a gain of $10 per share for AMT purposes.

If the employee meets the holding period requirements, the entire gain is taxed as a capital gain. To avoid a disqualifying disposition, the stock cannot be sold within two years from the date the option was granted or within one year after the option is exercised.

If the stock is disposed of before the holding periods expires, tax is deferred until the disposition of the stock. However, the gain is treated as ordinary income to the extent of the lesser of:

- The difference between the option price and the FMV at the time of exercise, or
- The amount of gain recognized on the sale.

The balance of the gain, if any, is taxed as a capital gain.

If the taxpayer exercises and sells the options in the same tax year, the sale is reported as a disqualifying disposition. There is no AMT adjustment on disqualifying dispositions. Taxpayers are required to report disqualifying dispositions to their employer. The employer reports the difference between the FMV at exercise and the option price as income on the taxpayer's Form W-2.

Example 26. Bonita was granted an option from her employer, BIG, Inc., to purchase 1,000 shares of stock at $50 per share. Bonita exercised her options when the stock was selling for $80 per share. She exercised and sold her options in the same day. This is often referred to as a "cashless" exercise. Bonita does not have an AMT adjustment, and the $30,000 she received on this disqualifying disposition is reported as income on her Form W-2.

ISOs create phantom income and because there is a deferral or timing difference, they create a minimum tax credit. Minimum tax credits are discussed later in the chapter.

Line 14 of Form 6251 is completed by entering the amount that the FMV of the stock exceeds the option price paid. This adjustment must be manually calculated and entered into most tax preparation software programs. Additionally, the basis adjustment must be manually tracked and entered on line 17 when the stock is later sold. However, if the stock is sold in the same tax year that the option is exercised, no adjustment is required because the tax treatment is the same for both regular tax and AMT purposes.

Tax Planning. There are several tax planning strategies for ISOs.

1. Exercise only options that will not incur AMT.
2. Exercise when the difference between option price and FMV is small.
3. Consider a IRC §83(b) election to include gross income in the year of transfer.
4. Consider a disqualifying disposition if the price drops before yearend.
5. Exercise early in the year.

Strategy 1 includes **watching the year in which the ISOs are exercised** to control the adjustment for AMT purposes. Clients should be advised to exercise only the amount of options that will not incur AMT.

Example 27. Lester's tax projections indicate that he can only exercise ISOs with a gain of $5,000 each year for the next three years without incurring AMT. In January of Year 1, he exercises options incurring a $5,000 ISO-AMT adjustment.

In February of Year 2, he sells the stock, incurring a negative $5,000 AMT adjustment. This is because the AMT basis for the stock is $5,000 higher than his regular tax basis.

In February of Year 2, he also exercises additional options, incurring a $10,000 ISO-AMT adjustment without being subject to AMT.

In March of Year 3, he sells the stock on which he incurred the $10,000 ISO-AMT adjustment. He incurs a negative $10,000 AMT adjustment. He also exercises additional options in March of Year 3, incurring a $15,000 ISO-AMT adjustment without being subject to AMT.

Strategy 2 involves **exercising options when the difference between FMV and the option price is small.**

Example 28. Les has an option to purchase 1,000 shares of stock at $50 per share. Currently, the stock is selling at $55 per share; however, Les anticipates the share price will reach $80 per share before the end of the year.

If Les exercises his options now, it will result in a $5,000 AMT adjustment (($55 − $50) × 1,000 shares). If Les waits until yearend to exercise his options, his AMT adjustment will be $30,000 (($80 − $50) × 1,000 shares).

Strategy 3 involves situations in which the stock is subject to restrictions on transferability and substantial risk of forfeiture. The AMT consequences do not occur until the year the restrictions lapse. In these situations, it may be possible to **make an election under IRC §83(b)** to be taxed for AMT purposes in the year the options are exercised. If the stock is forfeited before the restrictions lapse, a capital loss deduction is allowed for the amount paid for the stock, but no deduction is allowed for the amount included in income because of the election.

Example 29. Maria has an option to purchase 1,000 shares of her employer's stock. The option is subject to various restrictions over the next two years. The option price is $70 per share; as of the date of the grant in 2010, the stock was selling at $75 per share. If Maria makes the election under §83(b), she files a copy of the election with her employer and the IRS within 30 days of the date of the grant, and also with her 2010 tax return. Her election should conform with the requirements of Treas. Reg. §1.83-2. Her employer then adds $5,000 to her 2010 income (1,000 shares × ($75 – $70)).

This will lower any future AMT adjustments when the stock is sold. Maria received information and an election form from her employer and was advised to consult her tax advisor before deciding whether to take this election.

Strategy 4 involves taxpayers who own ISOs during a declining market. This adjustment for ISOs creates a unique problem for taxpayers. If the value of the stock declines, the taxpayer may not receive enough on the sale of the stock to pay the resulting AMT liability. In this situation, the taxpayer should consider selling the stock in a **disqualifying disposition prior to yearend.** It is critical that the option exercise and disposition occur during the same tax year.

Strategy 5 deals with exercising ISOs as early in the year as possible. If the stock price declines, the taxpayer can dispose of the stock before yearend. Because this creates a disqualifying disposition, there is no AMT adjustment. If the stock price remains the same or increases, the stock could be sold during the next tax year after reaching the long-term holding requirement and before April 15. This generates the cash necessary to pay the AMT liability.

Example 30. On January 15, 2010, Janet paid $10,000 to exercise an ISO to purchase 10,000 shares of stock worth $162,000.

The $152,000 difference between her cost and the stock's FMV when she exercised the option is not taxable for regular tax purposes. For AMT purposes, Janet must include the $152,000 as an adjustment on Form 6251.

Janet is single, has wages of $55,000, and claims the standard deduction. Her regular tax liability for the year is $7,600. Her AMT liability is $40,189, for a total tax liability of $47,789. Portions of her tax return follow.

Form 1040 (2010) **Janet Taxpayer** **111-22-3333** Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)			38	55,000
	39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked ▶ 39a** ☐				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b☐				
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see instructions)			40	5,700
	41	Subtract line 40 from line 38			41	49,300
	42	**Exemptions.** Multiply $3,650 by the number on line 6d			42	3,650
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	45,650
	44	**Tax** (see instructions). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			44	7,600
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	40,189
	46	Add lines 44 and 45 ▶			46	47,789
	47	Foreign tax credit. Attach Form 1116 if required	47			
	48	Credit for child and dependent care expenses. Attach Form 2441	48			
	49	Education credits from Form 8863, line 23	49			
	50	Retirement savings contributions credit. Attach Form 8880	50			
	51	Child tax credit (see instructions)	51			
	52	Residential energy credits. Attach Form 5695	52			
	53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ ______	53			
	54	Add lines 47 through 53. These are your **total credits**			54	
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶			55	47,789
Other Taxes	56	Self-employment tax. Attach Schedule SE			56	
	57	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919			57	
	58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			58	
	59	**a** ☐ Form(s) W-2, box 9 **b** ☐ Schedule H **c** ☐ Form 5405, line 16			59	
	60	Add lines 55 through 59. This is your **total tax** ▶			60	47,789
	61	Federal income tax withheld from Forms W-2 and 1099	61			

For Example 30

Form **6251** | **Alternative Minimum Tax—Individuals** | OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99) | ▶ See separate instructions. ▶ Attach to Form 1040 or Form 1040NR. | **2010** Attachment Sequence No. **32**

Name(s) shown on Form 1040 or Form 1040NR: **Janet Taxpayer** — **Your social security number** 111-22-3333

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 6. (If less than zero, enter as a negative amount.)	1	55,000
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4, **or** 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), lines 5, 6, and 8	3	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If filing Schedule L (Form 1040A or 1040), enter as a negative amount the sum of lines 6 and 17 from that schedule	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock (7% of gain excluded under section 1202)	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	152,000
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $219,900, see page 8 of the instructions.)	28	207,000

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2010, see page 8 of the instructions.)

IF your filing status is . . .	**AND line 28 is not over . . .**	**THEN enter on line 29 . . .**
Single or head of household	$112,500	$47,450
Married filing jointly or qualifying widow(er)	150,000	72,450
Married filing separately	75,000	36,225

STMT 2 — **29** — 23,825

If line 28 is **over** the amount shown above for your filing status, see page 8 of the instructions.

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 33 and 35 and skip the rest of Part II	30	183,175
31	• If you are filing Form 2555 or 2555-EZ, see page 9 of the instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 54 here. • **All others:** If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.	31	47,789
32	Alternative minimum tax foreign tax credit (see page 9 of the instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	47,789
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see page 11 of the instructions)	34	7,600
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	40,189

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form **6251** (2010)

Statement 2 (For Example 30)

Exemption		$47,450
AMTI	$207,000	
Base	(112,500)	
Excess AMTI	$ 94,500	
Reduction rate	× 25%	
Reduction amount	$ 23,625	(23,625)
Allowed exemption		$23,825

Example 31. Use the same facts as **Example 30.** Janet is frantic because she does not know how she will be able to pay the $40,189 AMT liability.

The stock's price has not changed since Janet exercised her options. If Janet sold 2,500 of her shares **before yearend** she would generate $40,500 in cash to pay her AMT liability (2,500 shares × $16.20 per share). Because this would be a disqualifying disposition, the $38,000 difference between the option price and FMV (($16.20 FMV per share – $1.00 option price per share) × 2,500 shares) would be reported as additional income on Janet's Form W-2.

By taking this action, Janet has effectively sold the shares of stock at no additional tax cost.

Portions of her tax return follow.

Form 1040 (2010) **Janet Taxpayer** **111-22-3333** Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)			38	93,000
	39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked** ▶ 39a ☐				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see instructions)			40	5,700
	41	Subtract line 40 from line 38			41	87,300
	42	**Exemptions.** Multiply $3,650 by the number on line 6d			42	3,650
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	83,650
	44	**Tax** (see instructions). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			44	17,138
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	30,651
	46	Add lines 44 and 45 ▶			46	47,789
	47	Foreign tax credit. Attach Form 1116 if required	47			
	48	Credit for child and dependent care expenses. Attach Form 2441	48			
	49	Education credits from Form 8863, line 23	49			
	50	Retirement savings contributions credit. Attach Form 8880	50			
	51	Child tax credit (see instructions)	51			
	52	Residential energy credits. Attach Form 5695	52			
	53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	53			
	54	Add lines 47 through 53. These are your **total credits**			54	
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶			55	47,789
	56	Self-employment tax. Attach Schedule SE				

For Example 31

Form **6251** — **Alternative Minimum Tax—Individuals** — OMB No. 1545-0074 — **2010**

Department of the Treasury, Internal Revenue Service (99)

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1040NR.

Attachment Sequence No. **32**

Name(s) shown on Form 1040 or Form 1040NR: **Janet Taxpayer**

Your social security number: **111-22-3333**

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 6. (If less than zero, enter as a negative amount.)	1	93,000
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4, **or** 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), lines 5, 6, and 8	3	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If filing Schedule L (Form 1040A or 1040), enter as a negative amount the sum of lines 6 and 17 from that schedule	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock (7% of gain excluded under section 1202)	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	114,000
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $219,900, see page 8 of the instructions.)	28	207,000

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2010, see page 8 of the instructions.)

IF your filing status is . . .	**AND line 28 is not over . . .**	**THEN enter on line 29 . . .**
Single or head of household	$112,500	$47,450
Married filing jointly or qualifying widow(er)	150,000	72,450
Married filing separately	75,000	36,225

STMT 2 — **29** 23,825

If line 28 is **over** the amount shown above for your filing status, see page 8 of the instructions.

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 33 and 35 and skip the rest of Part II	30	183,175
31	• If you are filing Form 2555 or 2555-EZ, see page 9 of the instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 54 here. • **All others:** If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.	31	47,789
32	Alternative minimum tax foreign tax credit (see page 9 of the instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	47,789
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see page 11 of the instructions)	34	17,138
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	30,651

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form **6251** (2010)

6

ALTERNATIVE MINIMUM TAXABLE INCOME

AMT is calculated by adjusting the taxpayer's regular taxable income by the AMT adjustments and preferences. This adjusted income amount is called alternative minimum taxable income (AMTI).

There is a rule for MFS taxpayers. This provision was enacted to prevent married taxpayers from filing separately to avoid the phaseout of the MFJ exemption. In 2010, an MFS taxpayer must increase their AMTI by an additional amount computed as follows.

- If AMTI is $364,800 or more, an additional $36,225 is added to AMTI.
- If AMTI is between $219,900 and $364,800, 25% of the AMTI over $219,900 is added to AMTI.
- If AMTI is $219,900 or less, no additional amount is added to AMTI.

Example 32. Willie files MFS. His 2010 AMTI is $351,500. He enters an additional $32,900 on line 28 of his Form 6251 (($351,500 – $219,900) × 25%).

ALTERNATIVE MINIMUM TAX EXEMPTION

The AMT exemption amount is subtracted from AMTI. The AMT exemption amounts are listed in the following table.

	2009	2010	2011
Single	$46,700	$47,450	$48,450
MFJ	70,950	72,450	74,450
MFS	35,475	36,225	37,225

Note. Taxpayers qualifying for HoH status are treated as single taxpayers for purposes of the AMT exemption amount. They do not receive favorable treatment for AMT purposes.

The amount of the AMT exemption is phased out when a taxpayer's AMTI exceeds a certain threshold. Once AMTI equals or exceeds the end of the phaseout range, the AMT exemption is zero. For 2011, the beginning and end of the phaseout range is listed in the following table.

	Begin Phaseout	End Phaseout
Single	$112,500	$302,300
MFJ	150,000	439,800
MFS	75,000	219,900

CALCULATING THE ACTUAL AMT

It is easiest to explain the calculation of the actual AMT by using line numbers found on Form 6251.

Caution. All software calculations should be double-checked for accuracy.

Line 28 — Alternative Minimum Taxable Income

The AMTI is computed on this line. It is the total of lines 1 through 27 and encompasses all of the adjustments and preferences discussed previously.

Line 29 — AMT Exemption

Line 29 reports the allowable AMT exemption amount.

Line 30 — Subtotal

The subtotal amount reported on line 30 equals AMTI less the taxpayer's exemption amount. The number on line 30 is used to calculate AMT. If this number is zero or less, the taxpayer is not subject to AMT (unless they are excluding foreign earned income on Form 2555, *Foreign Earned Income*, or Form 2555-EZ, *Foreign Earned Income Exclusion*, for which a separate calculation is made on a worksheet to compute the actual AMT on line 31).

Line 31 — Tax Calculation

The tax is calculated at the rate of 26% when the amount on line 30 is $175,000 or less. The tax is calculated at the rate of 28% when the amount on line 30 exceeds $175,000 minus $3,500, or $1,750 if MFS. The $175,000 is reduced to $87,500 for MFS taxpayers.

Example 33. Brenda calculated the amount on line 30 of her Form 6251 as $225,000. Brenda's tentative minimum tax is $59,500. This amount can be computed in one of two ways:

$175,000 × 26%	$45,500
($225,000 – $175,000) × 28%	14,000
	$59,500
$225,000 × 28%	$63,000
Less amount per instructions	(3,500)
	$59,500

If the taxpayer has qualifying dividends or capital gains, the tax is determined by using Part III of Form 6251.

If the taxpayer excludes foreign earned income (Form 2555 or 2555EZ) then a special worksheet is needed to compute AMT. For AMT purposes, the excluded foreign earned income is added back less any itemized deductions that were not deductible because the income was excluded. This is illustrated in the following worksheet found in the instructions to Form 6251.

Foreign Earned Income Tax Worksheet—Line 31 *Keep for Your Records*

Before you begin: √ If Form 6251, line 30, is zero, do not complete this worksheet.

1. Enter the amount from Form 6251, line 30 . . . . **1.** ______
2. Enter the amount from your (and your spouse's if filing jointly) Form 2555, lines 45 and 50, or Form 2555-EZ, line 18 . . . . **2.** ______
3. Add lines 1 and 2 . . . . **3.** ______
4. **Tax on the amount on line 3.** **4.** ______
   - If you reported capital gain distributions directly on Form 1040, line 13; **or** you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040), enter the amount from line 3 of this worksheet on Form 6251, line 36. Complete the rest of Part III of Form 6251. However, before completing Part III, see *Forms 2555 and 2555-EZ*, on page 11, to see if you must complete Part III with certain modifications. Then enter the amount from Form 6251, line 54, here.
   - **All others:** If line 3 is $175,000 or less ($87,500 or less if married filing separately), multiply line 3 by 26% (.26). Otherwise, multiply line 3 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.
5. **Tax on the amount on line 2.** If line 2 is $175,000 or less ($87,500 or less if married filing separately), multiply line 2 by 26% (.26). Otherwise, multiply line 2 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result. . . . . **5.** ______
6. Subtract line 5 from line 4. Enter the result here and on Form 6251, line 31. . . . . **6.** ______

Line 32 — AMT Foreign Tax Credit

For taxpayers who make the election to claim the foreign tax credit on Form 1040 without filing Form 1116, *Foreign Tax Credit,* their AMT foreign tax credit is the same as their foreign tax credit for regular tax purposes. The return preparer may need to instruct the software to make this election. A similar instruction may also be needed to make the same election for AMT purposes.

All other taxpayers must recalculate their foreign tax credit for AMT purposes. For regular tax purposes, the foreign tax credit is equal to tentative U.S. tax multiplied by a fraction, the numerator of which is foreign source taxable income and the denominator of which is worldwide taxable income. For AMT purposes, tentative AMT is substituted for tentative U.S. tax. Additionally foreign source taxable income and worldwide taxable income are computed after taking into account all AMT adjustments and preferences. Often the allocation of adjustments and preferences between the United States and foreign source income changes the ratio of foreign source taxable income to worldwide taxable income. Thus, the AMT foreign tax credit may be more or less than the foreign tax credit for regular tax purposes.

Taxpayers can elect to use a simplified method to compute their AMT foreign tax credit. Under the simplified method, foreign source income as computed for regular tax purposes is used in the computation of the AMT foreign tax credit. Once this election is made, the election applies to all subsequent tax years and may only be revoked with the IRS's consent.

Line 33 — Tentative Minimum Tax

The amount reported on line 33 is AMTI multiplied by the applicable AMT tax rate and reduced by the AMT foreign tax credit as calculated on line 32.

Line 34 — Regular Tax as Adjusted

Line 34 represents the taxpayer's regular tax liability less the foreign tax credit for regular tax purposes less any tax from Form 4972, *Tax on Lump-Sum Distributions.* If Schedule J, *Income Averaging for Farmers,* was used, the regular tax liability for AMT purposes is recomputed without using Schedule J. Many software programs do not recompute the regular tax when Schedule J is used to calculate the tax. It is strongly recommended that the tax return preparer check the software's computation of this line for a farm client who uses Schedule J and is subject to AMT.

Line 35 — Alternative Minimum Tax

Line 35 reports AMT, which is the difference between line 33 and line 34. If line 34 is greater than line 33, the taxpayer does not have an AMT liability.

Note. For tax planning purposes, it is critical to watch for several crossover points.

1. The regular tax liability equals the AMT liability. Before deciding whether or not to accelerate/defer income or deductions, the return preparer should print out Form 6251 to compare the amounts on lines 33 and 34. When the amounts are close, AMT tax planning strategies should be considered.
2. When the AMT exemption amount has been completely phased out, the taxpayer may have the ability to add additional income to be taxed at a 28% rate as opposed to higher regular rates. Thus, accelerating income may make sense until the regular tax exceeds the AMT tax liability.

CREDITS AGAINST AMT

Qualifying nonrefundable personal tax credits are allowed against both regular tax and AMT through 2011. Qualifying nonrefundable tax credits include the following.

- Dependent care credit[27]
- Credit for the elderly and disabled[28]
- Child tax credit[29]
- Home mortgage interest credit[30]
- Education credits, including HOPE, American opportunity, and lifetime learning credits[31]
- Retirement savings credit[32]
- Residential energy efficient property credit[33]
- Alternative motor vehicle credit[34]
- Plug-in electric vehicle credit[35]
- D.C. first-time homebuyer credit[36]

Example 34. Cecylia has a $15,000 regular tax liability and a $12,000 tentative minimum tax (TMT) as reported on line 33 of Form 6251. Cecylia also has $5,000 of qualifying nonrefundable personal credits.

Cecylia can use the $5,000 of credits to reduce her regular tax liability to $10,000 and her TMT liability to $7,000.

The general business credit is allowed only up to the amount that the regular tax exceeds the TMT. However, most general business credits can be carried forward and used in future years.

Example 35. Rachel has a $15,000 regular tax liability and a $12,000 AMT liability. Rachel also has a $5,000 general business credit.

Because the general business credit is limited to the amount that the regular tax exceeds the tentative minimum tax, the maximum general business credit Rachel can claim against her regular tax liability is $3,000.

However, Rachel can carry forward the unused $2,000 of general business credits.

Note. The Small Business Jobs Act of 2010 provides new carryback and carryforward rules for the general business credit for eligible businesses. See the discussion in Chapter 13, New Legislation.

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27. IRC §21.
28. IRC §22.
29. IRC §24.
30. IRC §25.
31. IRC §25A.
32. IRC §25B.
33. IRC §25D.
34. IRC §30B.
35. IRC §30.
36. IRC §1400C.

There are numerous exceptions to these rules. Congress has a history of allowing credits for special interest groups for both regular tax and AMT purposes. Typically, this is done by treating the tentative minimum tax as being zero for purposes of determining the credit limitation. The following are some examples of these credits.

- Alcohol fuels credit
- Renewable electricity production credit
- Indian coal production credit

TAX SOFTWARE ISSUES

It is critical for the tax preparer to understand which entries the software makes and which must be entered by the preparer. Tax preparers must understand how to manually compute the AMT or they will not know if the computer-generated return is accurate.

Often separate records must be kept for regular tax and AMT purposes. Unfortunately, much of this recordkeeping is not automatically handled by tax preparation software, such as the basis of stock acquired via ISOs.

When it is necessary to recompute items for AMT purposes, completing the applicable tax form a second time is advisable. If the tax return preparer completes the form a second time, the additional form should not be attached to the tax return. Rather, it should be kept with the taxpayer's records.

For regular tax purposes, some deductions and credits may result in carrybacks or carryforwards to other tax years. Examples of these items include capital losses, investment interest expenses, net operating losses, passive activity losses, and foreign tax credits. Because these items are recomputed for AMT purposes, the carryback or carryforward amounts may be different for AMT purposes than for regular tax purposes. Adequate records of these different amounts must be maintained.

At-risk and basis amounts may be different for AMT purposes than for regular tax purposes (e.g., partnership basis and S corporation basis). Adequate records of these various amounts must be maintained.

WHAT SHOULD TAX SOFTWARE CALCULATE?

See the appendix to this chapter for a line-by-line listing of Form 6251 and what tax software typically calculates. It is extremely important for the tax return preparer to input items into the software in the appropriate place to ensure the software makes these calculations correctly. For example, tax software may automatically calculate the adjustment for investment interest expense. However, this occurs only if the tax return preparer codes investment expenses as such when entering these expenses as itemized deductions.

WHAT DOES TAX SOFTWARE CALCULATE AUTOMATICALLY?

There is only one way to determine what a particular tax software package calculates automatically and what the tax return preparer must calculate and input manually. The tax preparer must test the tax software by creating a new client and entering the specified details. The return should then be computed and reviewed. It may be necessary to force the software to print Form 6251. The basic information on the test client is as follows.

Client: Joe Taxpayer
Social security number: 333-11-2222
Filing status: Single
Address: 123 Main Street, Anywhere, FL
W-2 wages: $50,000
Charitable contribution to church: $2,000

There are two computations to check. First, it should be verified that the tax software automatically optimizes between claiming the standard deduction and itemizing for **regular tax purposes**. By entering the client information and calculating the return, the tax software should claim the standard deduction on line 40 of Form 1040 as illustrated in the following 2010 return.

Form 1040 (2010) **Joe Taxpayer** **333-11-2222** Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)			38	50,000
	39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked ▶ 39a** ☐				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see instructions)			40	5,700
	41	Subtract line 40 from line 38			41	44,300
	42	**Exemptions.** Multiply $3,650 by the number on line 6d			42	3,650
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	40,650
	44	**Tax** (see instructions). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			44	6,350
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	
	46	Add lines 44 and 45 ▶			46	6,350
	47	Foreign tax credit. Attach Form 1116 if required	47			
	48	Credit for child and dependent care expenses. Attach Form 2441	48			
	49	Education credits from Form 8863, line 23	49			
	50	Retirement savings contributions credit. Attach Form 8880	50			
	51	Child tax credit (see instructions)	51			
	52	Residential energy credits. Attach Form 5695	52			
	53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ ______	53			
	54	Add lines 47 through 53. These are your **total credits**			54	
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶			55	6,350
		Self-employment tax. Attach Schedule SE				

The next step involves determining whether the tax software automatically optimizes between claiming the standard deduction and itemizing for **AMT tax purposes.** In order to test this, the standard client information can be changed by adding a $100,000 AMT adjustment for an ISO on line 13 of Form 6251. By recalculating the tax return, the tax software should claim itemized deductions on line 40 of Form 1040. The tax software should automatically compute a state and local general sales tax deduction as part of the itemized deductions. The following examples from the 2010 return illustrate the difference between claiming the standard deduction and itemizing when the taxpayer is subject to AMT.

Form 1040 (2010) **Joe Taxpayer** **333-11-2222** Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)			38	50,000
	39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked ▶ 39a** ☐				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see instructions)			40	5,700
	41	Subtract line 40 from line 38			41	44,300
	42	**Exemptions.** Multiply $3,650 by the number on line 6d			42	3,650
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	40,650
	44	**Tax** (see instructions). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			44	6,350
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	22,751
	46	Add lines 44 and 45 ▶			46	29,101
	47	Foreign tax credit. Attach Form 1116 if required	47			
	48	Credit for child and dependent care expenses. Attach Form 2441	48			
	49	Education credits from Form 8863, line 23	49			
	50	Retirement savings contributions credit. Attach Form 8880	50			
	51	Child tax credit (see instructions)	51			
	52	Residential energy credits. Attach Form 5695	52			
	53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ ______	53			
	54	Add lines 47 through 53. These are your **total credits**			54	
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶			55	29,101
Other Taxes	56	Self-employment tax. Attach Schedule SE			56	
	57	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919			57	
	58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			58	
	59	**a** ☐ Form(s) W-2, box 9 **b** ☐ Schedule H **c** ☐ Form 5405, line 16			59	
	60	Add lines 55 through 59. This is your **total tax** ▶			60	29,101
		Federal income tax withheld from Forms W-2 and 1099	61			

Standard Deduction

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. 1545-0074 — 2010 — Attachment Sequence No. 32

Name(s) shown on Form 1040 or Form 1040NR: **Joe Taxpayer** — Your social security number: **333-11-2222**

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 6. (If less than zero, enter as a negative amount.)	1	50,000
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4, **or** 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), lines 5, 6, and 8	3	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If filing Schedule L (Form 1040A or 1040), enter as a negative amount the sum of lines 6 and 17 from that schedule	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock (7% of gain excluded under section 1202)	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	100,000
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $219,900, see page 8 of the instructions.)	28	150,000

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2010, see page 8 of the instructions.)

IF your filing status is . . .	**AND line 28 is not over . . .**	**THEN enter on line 29 . . .**
Single or head of household	$112,500	$47,450
Married filing jointly or qualifying widow(er)	150,000	72,450
Married filing separately	75,000	36,225

STMT 3 — **29: 38,075**

If line 28 is **over** the amount shown above for your filing status, see page 8 of the instructions.

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 33 and 35 and skip the rest of Part II	30	111,925
31	• If you are filing Form 2555 or 2555-EZ, see page 9 of the instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 54 here. • **All others:** If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.	31	29,101
32	Alternative minimum tax foreign tax credit (see page 9 of the instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	29,101
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see page 11 of the instructions)	34	6,350
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	22,751

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form **6251** (2010)

Standard Deduction

Statement 3

Exemption		$47,450
AMTI	$150,000	
Base	(112,500)	
Excess AMTI	$ 37,500	
Reduction rate	× 25%	
Reduction amount	$ 9,375	(9,375)
Allowed exemption		$38,075

Itemized Deductions

Form 1040 (2010) **Joe Taxpayer** **333-11-2222** Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	50,000
	39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked** ▶ **39a** ☐		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ **39b** ☐		
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see instructions)	40	2,630
	41	Subtract line 40 from line 38	41	47,370
	42	**Exemptions.** Multiply $3,650 by the number on line 6d	42	3,650
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	43,720
	44	**Tax** (see instructions). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972	44	7,113
	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	21,338
	46	Add lines 44 and 45 ▶	46	28,451
	47	Foreign tax credit. Attach Form 1116 if required — 47		
	48	Credit for child and dependent care expenses. Attach Form 2441 — 48		
	49	Education credits from Form 8863, line 23 — 49		
	50	Retirement savings contributions credit. Attach Form 8880 — 50		
	51	Child tax credit (see instructions) — 51		
	52	Residential energy credits. Attach Form 5695 — 52		
	53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ ______ — 53		
	54	Add lines 47 through 53. These are your **total credits**	54	
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶	55	28,451
Other Taxes	56	Self-employment tax. Attach Schedule SE	56	
	57	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	57	
	58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	
	59	**a** ☐ Form(s) W-2, box 9 **b** ☐ Schedule H **c** ☐ Form 5405, line 16	59	
	60	Add lines 55 through 59. This is your **total tax** ▶	60	28,451
		Federal income tax withheld from Forms W-2 and 1099 — 61		

Itemized Deductions

SCHEDULE A (Form 1040) Department of the Treasury Internal Revenue Service (99)	**Itemized Deductions** ▶ Attach to Form 1040. ▶ See Instructions for Schedule A (Form 1040).	OMB No. 1545-0074 **2010** Attachment Sequence No. **07**

Name(s) shown on Form 1040: **Joe Taxpayer** — Your social security number: **333-11-2222**

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1			
	2	Enter amount from Form 1040, line 38 [2]				
	3	Multiply line 2 by 7.5% (.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	
Taxes You Paid	5	State and local **(check only one box):** a ☐ Income taxes, **or** b ☒ General sales taxes	5	630		
	6	Real estate taxes (see instructions)	6			
	7	New motor vehicle taxes from line 11 of the worksheet on back (for certain vehicles purchased in 2009). Skip this line if you checked box 5b	7			
	8	Other taxes. List type and amount ▶	8			
	9	Add lines 5 through 8			9	630
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10			
Note. Your mortgage interest deduction may be limited (see instructions).	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11			
	12	Points not reported to you on Form 1098. See instructions for special rules	12			
	13	Mortgage insurance premiums (see instructions)	13			
	14	Investment interest. Attach Form 4952 if required. (See instructions.)	14			
	15	Add lines 10 through 14			15	
Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16	2,000		
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	17			
	18	Carryover from prior year	18			
	19	Add lines 16 through 18			19	2,000
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)			20	
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶	21			
	22	Tax preparation fees	22			
	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶	23			
	24	Add lines 21 through 23	24			
	25	Enter amount from Form 1040, line 38 [25]				
	26	Multiply line 25 by 2% (.02)	26			
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27	
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ▶			28	
Total Itemized Deductions	29	Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40			29	2,630
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here ▶ ☒				

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 17145C **Schedule A (Form 1040) 2010**

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. 1545-0074

2010

Attachment Sequence No. 32

Name(s) shown on Form 1040 or Form 1040NR: Joe Taxpayer

Your social security number: 333-11-2222

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 6. (If less than zero, enter as a negative amount.)	1	47,370
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4, **or** 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), lines 5, 6, and 8	3	630
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If filing Schedule L (Form 1040A or 1040), enter as a negative amount the sum of lines 6 and 17 from that schedule	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock (7% of gain excluded under section 1202)	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	100,000
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $219,900, see page 8 of the instructions.)	28	148,000

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2010, see page 8 of the instructions.)

IF your filing status is . . .	AND line 28 is not over . . .	THEN enter on line 29 . . .
Single or head of household	$112,500	$47,450
Married filing jointly or qualifying widow(er)	150,000	72,450
Married filing separately	75,000	36,225

STMT 4 — **29** 38,575

If line 28 is **over** the amount shown above for your filing status, see page 8 of the instructions.

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 33 and 35 and skip the rest of Part II	30	109,425
31	• If you are filing Form 2555 or 2555-EZ, see page 9 of the instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 54 here. • **All others:** If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.	31	28,451
32	Alternative minimum tax foreign tax credit (see page 9 of the instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	28,451
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see page 11 of the instructions)	34	7,113
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	21,338

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6

Itemized Deductions

Statement 4

Exemption		$47,450
AMTI	$148,000	
Base	(112,500)	
Excess AMTI	$ 35,500	
Reduction rate	× 25%	
Reduction amount	$ 8,875	(8,875)
Allowed exemption		$38,575

MINIMUM TAX CREDIT

A portion of a taxpayer's AMT may generate an alternative minimum tax credit (MTC). The MTC is generated only by AMT attributable to deferral or timing preferences. The AMT attributable to exclusion preferences does not affect the MTC.[37]

The theory behind the MTC is to provide a method to provide relief from the effect of AMT created by items whose tax effect is temporary. For example, a depreciable asset's basis is reduced to zero under both regular tax and AMT. The difference between the two taxes is strictly a timing issue. Both regular tax and AMT allow a total deduction for the asset. Therefore, any tax created by the difference between the regular tax method and the AMT method is a situation that changes over time. It is inequitable to penalize a taxpayer for timing issues without offering some relief. Unfortunately, because taxpayers' situations differ from year to year, the MTC does not always provide total relief for the tax created by AMT.

Example 36. In 2010, Juanita placed used equipment costing $50,000 into service. Her regular tax depreciation was $10,000 and her AMT depreciation was $7,500. Because Juanita was in an AMT situation, she received no tax benefit from the additional $2,500 of regular depreciation.

In 2011, Juanita sells the equipment for $45,000. Her gain for regular tax purposes is $5,000 and her gain for AMT purposes is only $2,500.

If Juanita is also in an AMT situation in 2011, then no credit is available. Her reduced gain for AMT purposes automatically reduces her AMT liability. This provides her with a tax benefit for the additional $2,500 of regular depreciation.

If Juanita is not in an AMT situation in 2011, she will not receive any tax benefit from the $2,500 of regular depreciation without the MTC.

She received no tax benefit from the additional regular depreciation in 2010 because she was in an AMT situation. She received no tax benefit from her higher AMT basis in 2011 because she was not subject to AMT.

Form 8801, *Credit for Prior Year Minimum Tax,* is used to calculate the MTC and determine any possible carryforward to subsequent years.

The MTC is the actual AMT paid by the taxpayer less the AMT that the taxpayer would have paid if only exclusion items were considered. This requires a new AMTI computation that does not include the deferral items.

37. IRC §53(d)(1)(B)(i)(II).

The MTC is, despite its name, not a credit against AMT. The MTC is a credit against the taxpayer's regular tax liability. However, the MTC cannot reduce regular tax below the AMT liability. Consequently, an AMT computation must be made whenever there is a MTC in order to determine the amount of the credit allowed. The regular MTC is nonrefundable.

If the MTC is not completely used in the subsequent year, it is aggregated and becomes part of the MTC for future years.[38] This credit is carried forward indefinitely until it is completely used.

Example 37. Brad has an MTC of $2,000 available from 2009. In 2010, he calculated his regular tax liability as $5,000 and his AMT as $4,500. Brad can use $500 of his MTC to reduce his regular tax liability. The remaining $1,500 cannot be used in 2010 because he cannot reduce his regular tax liability below his AMT liability. The unused $1,500 can be carried forward to 2011.

Situations in which the MTC carryforward is reduced, even though it has not reduced the taxpayer's regular tax liability, are as follows.

- The taxpayer has negative AMT adjustments in subsequent years.
- When only deferral items are considered, the taxpayer's AMTI is less than regular taxable income.
- Because of exclusion items, the taxpayer would have incurred an AMT liability if AMTI were treated as equal to regular taxable income considering only deferral items.

REFUNDABLE MTC

There is now a refundable MTC for certain unused minimum tax credits. The minimum tax credit that is eligible for refundable treatment is that portion of the MTC shown as a carryover on the third preceding tax return, reduced by any MTCs allowed in the prior two years. MTCs are considered used on a first-in, first-out basis.

For 2011, MTC carryovers attributable to tax years before 2008 are eligible for refundable treatment.

The refundable MTC is the greater of:

- 50% of the unused MTC that is more than three years old, or
- The refundable MTC from the prior year's income tax return.

The tentative refundable credit is calculated on Form 8801, Part IV. This portion of the form is shown on the following page.

If the taxpayer's allowable refundable MTC is greater than their tax liability, they may receive a refund of the difference. The refundable MTC is treated in the same manner as an estimated tax payment, so it may be refunded even if there is no tax liability to offset.[39]

38. IRC §53(b).

39. IRC §53(e)(4).

Form 8801 (2011) Page **4**

Part IV Tentative Refundable Credit

48	Enter the amount from line 21			48	
49	Enter the total of lines 18 and 20 from your 2009 Form 8801. If zero or less, enter -0-	49			
50	Enter the total of lines 18 and 20 from your 2010 Form 8801. If zero or less, enter -0-	50			
51	Enter the total of lines 18 and 20 from your 2011 Form 8801. If zero or less, enter -0-	51			
52	Add lines 49 through 51			52	
53	**Long-term unused minimum tax credit.** Subtract line 52 from line 48 (If zero or less, enter -0- here and on line 26. **Do not** complete the rest of Part IV)			53	
54	Multiply line 53 by 50% (.50)			54	
55	Enter the amount from your 2010 Form 8801, line 57			55	
56	Enter the **larger** of line 54 or line 55			56	
57	Enter the **smaller** of line 53 or line 56. Enter the result here and on line 26			57	

Form **8801** (2011)

ISOs AND THE MTC

Many taxpayers struggled for years with large tax liabilities imposed on "phantom income" that they were required to recognize when they exercised ISOs in the "dot-com" era. The stocks lost value in the stock market downturn in early 2000. Although these taxpayers never realized the gains on which they were taxed under AMT, the IRS demanded full payment of the tax liability and imposed interest and penalties that many taxpayers were unable to pay.

For regular tax purposes, the exercise of an ISO is generally tax-free, provided certain holding requirements are met. However, for AMT purposes, the excess of the stock's FMV on the ISO exercise date over the exercise price is considered income. As a result, many taxpayers had very large tax liabilities on income they never received because they never actually sold the stock.

If the stock market had continued to increase or even remained flat, this would not have created a problem because the stock could have been sold for enough money to easily pay the tax liability. However, when the dot-com bubble burst, many of these stocks became worthless. The result was that taxpayers had a large tax liability from income they had not, nor would ever, receive.

For taxpayers who owed AMT for 2007 or any prior year due to the AMT adjustment from the exercise of ISOs, the amount of any such tax owed as of October 3, 2008, was abated.[40] However, those taxpayers reduced the amount of their MTC by the amount abated.

Additionally, the 2008 and 2009 MTC and the refundable credit amounts were increased by 50% of interest and penalties paid before October 3, 2008, on AMT incurred before 2008 that related to exercising an ISO. Therefore, those taxpayers who actually paid their AMT liability on the exercise of an ISO were completely refunded those amounts over a 2-year period.

It should be noted that this law change did not change any law associated with nonqualified stock options or the tax treatment of ISOs under AMT for future years.

40. IRC §53(f)(1), as added by the Emergency Economic Stabilization Act of 2008, §103(b).

KIDDIE AMT

A child subject to the kiddie tax is also subject to special rules in calculating AMT. This is referred to as the kiddie AMT.

For regular tax purposes, the incentive for parents to shift income to minor children is based on rate differentials. AMT tax rates are far less progressive than regular tax rates. For AMT purposes, the incentive to shift income is not based on rate differentials; rather, it is motivated by the exemption amount. Consequently, the kiddie AMT is primarily a restriction on the exemption amount available to minor children.

The kiddie AMT rules provide that an AMT exemption amount for a child under the applicable age is the lesser of:

- The AMT exemption amount for single taxpayers, or
- The child's earned income plus the kiddie AMT exemption amount.

For years after 2007, the applicable age is under age 18 (or age 24 if a full-time student). The kiddie AMT exemption limitation applies regardless of whether a child can be claimed as a dependent.

The AMT exemption amounts for **single taxpayers** are listed in the following table.

Year	2009	2010	2011
Amount	$46,700	$47,450	$48,450

The **kiddie AMT exemption amounts** are listed in the following table.

Year	2009	2010	2011
Amount	$6,700	$6,700	$6,800

Example 38. Maggie is age 16. She has earned income of $3,500. Her AMT exemption amount for 2011 is computed as follows.

1	Regular AMT exemption		$48,450
2	Earned income	$ 3,500	
3	Kiddie AMT exemption	6,800	
4	Add lines 2 and 3	$10,300	$10,300
5	AMT exemption (lesser of lines 1 or 4)		$10,300

Example 39. Kylee is age 16. She has earned income of $80,000 from her acting career. Her AMT exemption amount for 2011 is computed as follows.

1	Regular AMT exemption		$48,450
2	Earned income	$80,000	
3	Kiddie AMT exemption	6,800	
4	Add lines 2 and 3	$86,800	$86,800
5	AMT exemption (lesser of lines 1 or 4)		$48,450

APPENDIX

ADJUSTMENTS AND PREFERENCES — EXCLUSION OR DEFERRAL?

Form 6251 Line Number	Adjustment or Preference	Exclusion or Deferral	Minimum Tax Credit
1	Standard deduction	Exclusion	No
2	Medical expenses	Exclusion	No
3	Itemized taxes	Exclusion	No
4	Home mortgage interest	Exclusion	No
5	Miscellaneous itemized deductions	Exclusion	No
6	N/A for 2011	N/A for 2011	N/A for 2011
7	Tax refunds	Exclusion	No
8	Investment interest expense	Exclusion	No
9	Depletion	Exclusion	No
10	NOL deduction	Deferral	Yes
11	AMT NOL	Deferral	Yes
12	Private activity bond interest	Exclusion	No
13	Qualified small business stock	Exclusion	No
14	ISOs	Deferral	Yes
15	Estates and trusts	Could be either	Depends
16	Electing large partnerships	Could be either	Depends
17	Disposition of property	Deferral	Yes
18	Depreciation	Deferral	Yes
19	Passive activities	Could be either	Depends
20	Loss limitations	Deferral	Yes
21	Circulation costs	Deferral	Yes
22	Long-term contracts	Deferral	Yes
23	Mining costs	Deferral	Yes
24	Research and experimental costs	Deferral	Yes
25	Installment sales	Deferral	Yes
26	Intangible drilling costs	Deferral	Yes
27	Other adjustments	Could be either	Depends

Note. Line numbers are from the 2010 Form 6251.

TAX CREDITS AND AMT

Credit	Allowed against AMT	Notes
Dependent care credit	Yes	Through 2011
Credit for elderly and disabled	Yes	Through 2011
Child tax credit	Yes	Through 2011
Home mortgage interest credit	Yes	Through 2011
American opportunity credit	Yes	Through 2011
Lifetime learning credit	Yes	Through 2011
Retirement savings credit	Yes	Through 2011
Residential energy efficient property	Yes	Through 2011
Alternative motor vehicle credit	Yes	Through 2011
Plug-in electric vehicle credit	Yes	Through 2011
D.C. first-time homebuyer credit	Yes	Through 2011
Work opportunity tax credit	Partially	
Alcohol fuel credit	Partially	
Employer social security credit	Partially	
Low-income housing credit	Partially	
Railroad track maintenance credit	Partially	
Rehabilitation credit	Partially	
Adoption credit	Refundable	

WHAT SHOULD PROFESSIONAL TAX SOFTWARE CALCULATE?

Form 6251 Line Number	Adjustment or Preference	Automatically Calculated	Notes
1	Standard deduction	Some do	Most software programs do not
2	Medical expenses	Yes	
3	Itemized taxes	Yes	
4	Home mortgage interest	No	Manually enter nonqualifying interest
5	Miscellaneous itemized deductions	Yes	
6	N/A for 2011	N/A for 2011	N/A for 2011
7	Tax refunds	Yes for state income tax refunds	Must manually enter other tax refunds
8	Investment interest expense	Yes	Must code investment expenses
9	Depletion	No	
10	NOL deduction	Yes	
11	AMT NOL	Yes	
12	Private activity bond interest	No	Must code interest
13	Qualified small business stock	No	Must code qualifying stock
14	ISOs	No	Must manually track AMT stock basis
15	Estates and trusts	No	Enter from Schedule K-1
16	Electing large partnerships	No	Enter from Schedule K-1
17	Disposition of property	Some do	Manually track AMT stock basis for ISOs
18	Depreciation	Yes	
19	Passive activities	Some do	
20	Loss limitations	No	
21	Circulation costs	No	Manually calculate current and future year
22	Long-term contracts	No	Manually calculate current and future year
23	Mining costs	No	
24	Research and experimental costs	No	Manually calculate current and future year
25	Installment sales	No	
26	Intangible drilling costs	No	
27	Other adjustments	No	Manually calculate current and future year

Note. Line numbers are from the 2010 Form 6251.