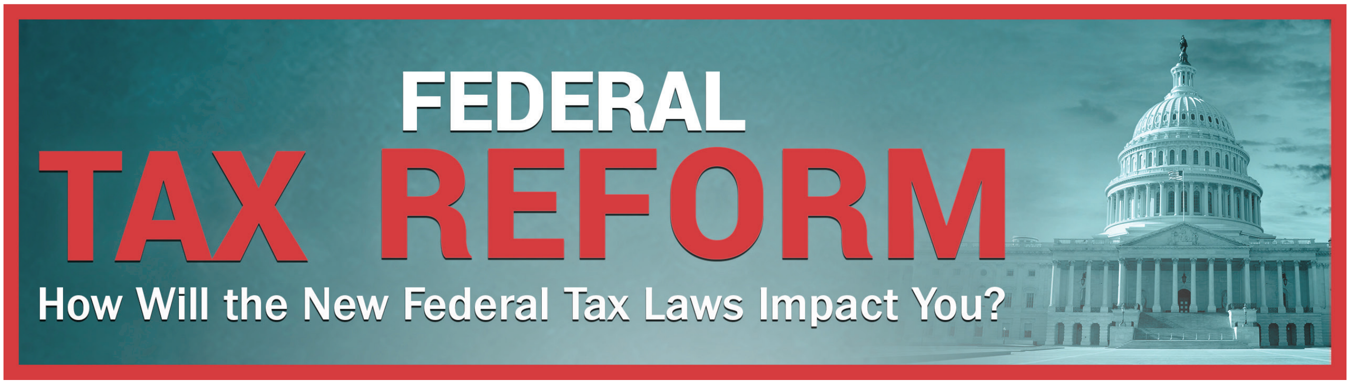
Important Information from the Bowles Rice Tax Team



Changes to Alternative Minimum Tax for Corporations and Individuals

Changes to the Alternative Minimum Tax (AMT) will take effect beginning in 2018 under the major piece of tax legislation called the Tax Cuts and Jobs Act (TCJA).

Before the Tax Cuts and Jobs Act, a second tax system called the alternative minimum tax (AMT) applied to both corporate and noncorporate taxpayers. The AMT was designed to reduce a taxpayer's ability to avoid taxes by using certain deductions and other tax benefit items. The taxpayer's tax liability for the year was equal to the sum of (i) the regular tax liability, plus (ii) the AMT liability for the year.

A corporation's tentative minimum tax equaled 20% of the corporation's "alternative minimum taxable income" (AMTI) in excess of a $40,000 exemption amount, minus the corporation's AMT foreign tax credit. AMTI was figured by subtracting various AMT adjustments and adding back AMT preferences. The $40,000 exemption amount gradually phased out at a rate of 25% of AMTI above $150,000.

"Small" corporations – those whose average annual gross receipts for the prior three years didn't exceed $7.5 million ($5 million for startups) – were exempt from the AMT. A taxpayer's net operating loss (NOL) deduction, generally, couldn't reduce a taxpayer's AMTI by more than 90% of the AMTI (determined without regard to the NOL deduction). Very complex rules applied to the deductibility of minimum tax credits (MTCs). All-in-all, the AMT was a very complicated system that added greatly to corporate tax compliance chores.

Corporate AMT Repealed

The Tax Cuts and Jobs Act repealed the AMT on corporations. Conforming changes also simplified dozens of other tax code sections that were related to the corporate AMT. The TCJA also allows corporations to offset regular tax liability by any minimum tax credit they may have for any tax year. And, a corporation's MTC is refundable for any tax year beginning after 2017 and before 2022 in an amount equal to 50% (100% for tax years beginning in 2021) of the excess MTC for the tax year, over the amount of the credit allowable for the year against regular tax liability. Thus, the full amount of the corporation's MTC will be allowed in tax years beginning before 2022.

Temporary Easing of Individual AMT

The TCJA doesn't repeal the AMT for individuals, but it does increase its exemption amounts for tax years 2018 through 2025, making it less likely to hit at lower income levels. Before the TCJA, individual AMT exemptions for 2018 (as adjusted for inflation) would have been $86,200 for marrieds filing jointly and surviving spouses; $55,400 for other unmarried individuals; $43,100 for marrieds filing separately. Those exemption amounts would have been reduced by 25% of the amount by which the individual's AMTI exceeded:

- $164,100 for marrieds filing jointly and surviving spouses (completely phased out at $508,900);
- $123,100 for unmarried individuals (completely phased out at $344,700); and
- $82,050 for marrieds filing separately (completely phased out at $254,450, with an additional add-back to discourage separate filing by marrieds)

Exemption Increases and Higher Phaseouts

The TCJA increases the individual AMT exemption amounts for tax years 2018 through 2025 to $109,400 for marrieds filing jointly and surviving spouses; $70,300 for single filers; and $54,700 for marrieds filing separately. These increased exemption amounts are reduced (not below zero) by 25% of the amount of the taxpayer's alternative taxable income above $1 million for joint returns and surviving spouses, and $500,000 for other taxpayers except estates and trusts. All of these amounts will be indexed for inflation after 2018 under a new measure of inflation that will result in smaller increases than under the method previously used.

For trusts and estates, the base figure AMT exemption of $22,500 and phase-out threshold of $75,000 remain unchanged.

If you were subject to the individual AMT in the past, you may be able to reduce your wage withholding or pay reduced amounts of estimated taxes going forward due to the exemption increases and higher phaseout levels.

Questions?

Please contact a member of the Bowles Rice Tax Team if you wish to discuss how these changes or any of the many other new tax rules in the TCJA might affect your particular situation, and the planning steps you might consider in response to the.

Mike Caryl
(304) 264-4225
mcaryl@bowlesrice.com

Bob Kiss
(304) 347-1736
rkiss@bowlesrice.com

Marc Monteleone
(304) 347-1132
monteleone@bowlesrice.com

Alison Cox
(304) 264-4211
aacox@bowlesrice.com

David DeJarnett
(304) 264-4232
ddejarnett@bowlesrice.com

Emily Lambright
(304) 347-1124
elambright@bowlesrice.com

Kin Sayre
(304) 264-4226
ksayre@bowlesrice.com

Melissa Hall
(724) 514-8942
mhall@bowlesrice.com

Rick Hudson
(304) 420-5511
rhudson@bowlesrice.com

Breck Martin
(304) 420-5506
bmartin@bowlesrice.com

Seth Wilson
(304) 285-2531
swilson@bowlesrice.com

Amy Lamp-Leonard
(304) 264-4235
aleonard@bowlesrice.com