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AMT Reduction Strategies After Tax Reform: Identifying AMT Risks and Planning to Avoid AMT

THURSDAY, JANUARY 10, 2019, 1:00-2:50 pm Eastern

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AMT Reduction Strategies After Tax Reform

Accompanied By Live AMT 2017-2018 Example and PowerPoint

Identifying AMT Risks and Planning to Avoid AMT

TCJA Changes to the AMT Regime, Credits and Carryforward Calculations

And Reporting on Form 6251 and 8801

January 10, 2019 - 1:00pm-2:50pm EST - 10:00am-11:50am PST

Sponsored by Stafford Publications, Inc.

Presented By EisnerAmper LLP

This webinar provides tax advisers with a practical guide to calculating and reporting alternative minimum tax (AMT) for individuals, and planning strategies to minimize the impact of the AMT. The speakers will discuss the changes to the AMT regime included in tax reform and detail specific steps to lower the overall multi-year tax cost of AMT liability. The webinar will also offer line-by-line guidance in completing Form 6251.

A. Course Description

Somewhat surprisingly, the new tax reform law did not repeal the AMT, but it does offer some provisions to narrow the reach and impact of the AMT on individual taxpayers. The elimination of many itemized deductions, as well as the individual exemption amount, will have the effect of significantly reducing the number of taxpayers subject to AMT. However, for some high income taxpayers, AMT will remain in effect and may present calculation challenges as well as planning opportunities.

The AMT regime creates a separate, parallel calculation of income and deductions; however, under the AMT, certain deductions from ordinary taxable income are deemed as "tax preferences" and must be added back in calculating alternative minimum taxable income (AMTI). Additionally, taxpayers must maintain a schedule of AMT tax credits to apply to future AMT liabilities. Tax advisers serving high net worth individuals must have a thorough grasp of AMT "risk factors" as well as the calculation regime of add-backs, adjustments and credits. By identifying a taxpayer's AMT situation, alert advisers can implement end of year planning steps to minimize or avoid any AMT liability.

This presentation will provide a thorough and practical guide to calculating AMTI and resulting tax, including Form 6251 reporting and planning opportunities to minimize the impact of the AMT.

B. Outline

1. Structure of AMT and identifying AMT triggers
2. Impact of tax reform on AMT
3. Tax preferences, adjustments and exemptions to calculate AMTI
4. The Standard Deduction and Itemized Deductions
5. Completing Form 6251

    i. Calculating AMT credit carryforwards

    ii. Reporting credit carryforward on Form 8801

6. Tax planning strategies to reduce overall tax cost impact of AMT

    i. Income timing plans such as multi-year cash outs of ISOs

    ii. Whether to prepay certain tax bills not deductible for AMT purposes

    iii. Possible acceleration of income into AMT year

C. Benefits

1. Additional AMT-related topics

    i. How tax reform's elimination of certain deductions and personal exemption amounts narrowed the reach of taxpayers subject to AMT

    ii. AMT triggers and planning steps (including timing decisions)

    iii. Current AMT rates, exemptions, adjustments and preferences for individual taxpayers

    iv. Determining the proper treatment of capital gains, NOLs, AMT carryover and other aspects

B. Outline – Detailed Narrative

1. Structure of AMT and identifying AMT triggers

a. Significant changes to the individual tax
b. Reforms to itemized deductions and AMT
c. Child care credit, and
d. Lower marginal tax rates (across brackets)

2. Impact of tax reform on AMT

a. For 2018, simplification
b. In 1969, Congress identified approximately 155 people with high incomes, legally using so many deductions and other tax breaks, such that they were paying minimal federal income taxes. As a result, Congress instituted the AMT with the aim of making the tax system more fair. However, because the AMT was never indexed to inflation—as the regular income tax is—each year AMT has been subjecting more and more middle-income taxpayers to taxation that was originally directed at a select group of affluent taxpayers.
c. The AMT exemption amounts are now indexed to rise with inflation
d. Approximately 28.5 million taxpayers would be advantaged by taking the new standard deduction, instead of itemizing deductions
e. New limits apply to some itemized deductions, including deductions for state and local taxes paid, and mortgage interest. Also, reduced income tax rates and additional reforms. A broader tax base and reduction in distortions in the tax code
f. Individual income tax changes are scheduled to expire after December 31, 2025. If permanent, the individual tax provisions would reduce federal revenues by an estimated $165 billion per year. Considering forecasted economic growth (not a precise science), revenue reduction could be $115 billion per year
g. Post 2025, most individuals would experience tax increases beginning in 2026

3. Tax preferences, adjustments and exemptions to calculate AMTI

a. First, AGI is the baseline of the individual income tax
b. Post AGI, reductions for exclusions and deductions and credits
c. Prior to the TCJA, the federal tax code included provisions that reduced households' income tax contemplating household members: the standard deduction, child tax credit, and personal exemption

> *Note: the federal income tax rate is levied at seven rates, however reaching higher tax brackets does not mean an individual, pays that higher rate on all income – only on the income subject to tax in that particular bracket*

d. The Tax Foundation and data used from the Office of Information and Regulatory Affairs, and the Bureau of labor Statistics, to estimate the total cost of tax compliance in the U.S. economy in 2016; complying with the U.S. individual income tax cost nearly $100 billion, with 2.6 billion hours incurred to do so. Reducing the cost of tax compliance was a significant motivation for the TCJA
e. The AMT exemption amount for 2018 is $70,300 for singles and $109,400 for married couples filing jointly. In 2018, the 28 percent AMT rate applies to excess AMTI of $191,500 for all married taxpayers ($95,750 for unmarried individuals).
f. The following are some of the more common adjustments or preferences required to arrive at AMTI:

   (1) Tax-exempt interest. Tax-exempt interest from certain private activity bonds (other than qualifying bonds issued in 2009 or 2010) isn't exempt for AMT purposes. Thus, although a taxpayer can exclude this interest from your regular taxable income, it must be included in AMTI.

   (2) Interest deduction. For AMT purposes a taxpayer can only deduct mortgage or home equity loan interest on funds borrowed to buy, build, or substantially improve a primary home or a second residence (or on the refinancing of that debt). So, if a taxpayer claimed a regular tax deduction for interest on a home equity loan that was not attributable to a home (residence), it would have to add it back in determining AMTI. Also, an adjustment may have to be made to an investment interest deduction, in some cases, for AMT purposes.

   (3) State and local tax deduction. For AMT purposes, a taxpayer obtains no deduction for state and local income taxes, or real estate or other property taxes, although a deduction is allowed for regular tax purposes. Taxpayers will have to add any income or property taxes deducted for regular tax purposes back to taxable income for AMTI.

   (4) Medical expenses. If a taxpayer is deducting any medical expense for regular tax purposes, some of the deduction may be lost for AMT purposes. For regular tax purposes, medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income (AGI) for taxpayers; after 2018, the medical expense deduction floor returns to 10%. For AMT purposes, however, medical expenses are only deductible to the extent they exceed 10% of AGI. Thus, these taxpayers would compute their reduced deduction amount and add the difference back to taxable income in determining AMTI. (For example, if the "regular" medical deduction was $8,000 and the AMT medical deduction is $6,000, there would be an add back $2,000 to taxable income).

   (5) Miscellaneous itemized deductions. If a taxpayer is entitled to a regular tax deduction for any miscellaneous itemized expenses (these are deductions that are limited, even for regular tax purposes, to the excess over 2% of your AGI), there is no deduction for AMT purposes, regardless of what they are comprised of.

(6) Personal and dependency exemptions. These aren't allowed. Instead, they are must added back regular taxable income in determining AMTI.

(7) Standard deduction. If the standard deduction is claimed instead of itemizing, this deduction must be added back to determine AMTI.

(8) Incentive stock options (ISOs). The favorable tax treatment allowed for ISOs isn't allowed for AMT purposes. This means that although a taxpayer does not pay any regular tax when exercising an ISO, he or she may have to pay AMT on the value of the stock received (minus what was paid for it) in the year of the exercise the ISO, unless the stock was sold in that year. This is true even if the stock price declines significantly after an exercise the ISO.

(9) Depreciation deductions. For certain depreciable property, the depreciation schedules are slower for AMT purposes than for regular tax purposes. Therefore, some adjustments may have to be made in your depreciation deductions, and in the gain or loss on the sale of this property.

(10) Depletion. For AMT purposes, depletion is allowed only to the extent of the adjusted basis for the property.

(11) Other preferences. Other types of preferences may apply depending on a taxpayer's particular tax situation.

(12) Exemption amounts. 2018 AMT exemption amounts are:

Single taxpayers:	$70,300
Married taxpayers filing jointly:	$109,400
Married filing separately:	$54,700
Head of Household:	$70,300

(13) The AMT Credit. Taxpayers subject to 2018 may be able to obtain a tax credit for AMT paid in a prior year. This credit, calculated on Form 8801 - Credit for Prior Year Minimum Tax - calculates how much of the AMT was related to deferral items, which generate credit for future years, as opposed to exclusion items which are not deductible for AMT, and consequently are lost.

(14) Forms 6251 and 8801

See 5. above and the following page. As cited above, certain items in Lines 2-28 of the Form 6251 are not deductible for AMT purposes, such as taxes, home equity mortgage interest and miscellaneous deductions. Lines 2-5, 8-10, 13 and 14 are exclusion items. If you paid AMT based on entries on these lines, taxpayers obtain no tax credit for AMT.

Other items create timing differences, such as depreciation differences between the two tax systems, and the phantom income from exercising incentive stock options. These items can generate a credit on Form 8801 and reduce regular taxes in future years. Lines

15-28 are deferral items. An AMT credit may be generated based on the reversal of the timing difference of these items. For example, AMT depreciation methods may be slower than those for the regular tax, but a taxpayer will eventually receive the same deduction. To calculate and report the AMT credit, Form 8801 must be completed.

4. The 2018 standard deduction and itemized deduction – for regular tax purposes

a. As a result of the 2017 tax legislation, the (i) standard deduction was increased in 2018 to $12,000 (increased from $6,500) for single filers, and to $24,000 (from $13,000) for joint filers, (ii) the personal exemption was eliminated, and replaced by the aforementioned expanded standard deduction, and (iii) an expanded child tax credit
b. The Joint Committee on Taxation (JCT) estimates the number of itemized filers will decline from 46.5 million in the 2017 tax year to approximately 18 million in the 2018 tax year; as a result nearly 30 million households will find it more advantageous to take the standard deduction. In summary, 88 percent of filers will use the standard deduction to complete their 2018 filings
c. The above TCJA changes are concentrated among low-and middle-income groups. The number of returns reflecting itemized deductions will fall by 75 percent for those with income between $20,000 and $30,000 and 74 percent for those between $30,000 and $40,000. For taxpayers with income over $100,000 it is estimated that 63% of 2017 taxpayers will not itemize in 2018, and for taxpayers with income in excess of $500,000 nearly 50 percent will not be itemizing in 2018

5. Completing Form 6251 – A Live Example

i. Calculating AMT credit carryforwards

ii. Reporting credit carryforward on Form 8801

6. Tax planning strategies to reduce overall tax cost impact of AMT – A Live Example

i. Income timing plans such as multi-year cash outs of ISOs

ii. Whether to prepay certain tax bills not deductible for AMT purposes

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C. Benefits – For Discussion

1. Additional AMT-related topics

i. How tax reform's elimination of certain deductions and personal exemption amounts narrowed the reach of taxpayers subject to AMT

ii. AMT triggers and planning steps (including timing decisions)

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iv. Determining the proper treatment of capital gains, NOLs, AMT carryover and other aspects

Attachments and Resource Materials to Review and Discuss

See Following Pages

1979 Form 6251

2017 Form 6251

2018 Form 6251 And Instructions

2018 Form 8801

Live Example

2017 and 2018 AMT Calculation