

Tax Cuts and Jobs Act: Law, Explanation & Analysis

Tax Cuts Act: Alternative Minimum Tax for Individuals

Re: 2017 Tax Cuts Act: Alternative Minimum Tax for Individuals

The Tax Cuts and Jobs Act temporarily increases the alternative minimum tax (AMT) exemption amounts for individuals for tax years 2018 through 2026. The AMT system was originally enacted to ensure that all taxpayers, particularly higher-income taxpayers, pay at least a minimum amount of federal income tax. The AMT generally imposes a minimum tax on taxpayers who have substantially lowered their regular tax liability by taking advantage of tax-favored and preference items, including deductions, exemptions, and credits.

A taxpayer's AMT for a tax year is the excess of the tentative minimum tax over the regular tax liability. To calculate the tentative minimum tax, the taxpayer must first determine alternative minimum taxable income (AMTI) and then subtract the AMTI exemption amount. The AMTI is taxable income recomputed by taking into account adjustments and preferences. The amount of alternative minimum taxable income up to the exemption amount is excluded from minimum taxation. The exemption amount is phased out at certain AMTI levels. The difference between the AMTI and the exemption amount is then multiplied by the appropriate AMT rate, and the product of this computation is the tentative minimum tax.

Exemption amount and phaseout thresholds for individuals temporarily increased

Beginning in 2018, the AMT exemption amounts are:

- \$109,400 for married individuals filing jointly or surviving spouses;
- \$70,300 for single or head of household filers; and
- \$54,700 for married individuals filing separately (i.e., 50 percent of the amount for married individuals filing jointly).



The threshold amounts for phaseout or reduction of the AMT exemption amount are also temporarily increased after 2017. The phaseout threshold is \$1 million for married individuals filing jointly or surviving spouses, and 50 percent of this amount for all other individuals. Thus, the phaseout threshold is \$500,000 for an individual filing as single, head of household, or married filing separately.

For tax years after 2018, the temporary increases in the AMT exemption amounts and phaseout thresholds are adjusted annually for inflation.

The exemption amount continues to phase out 25 percent for each \$1 that AMTI exceeds certain threshold amounts. Thus, the AMT exemption amount is completely phased out for an individual for 2018 when AMTI reaches \$1,437,600 for married individual filing jointly or surviving spouse; \$781,200 for filing as single or head of household; and \$718,800 for married filing separately.

The AMT exemption amount and phaseout threshold for an estate or trust are not impacted by any of the temporary increases in the exemption amount and phaseout threshold for an individual. For 2018, the AMT exemption amount for an estate or trust is \$24,600 (but \$0 for portion of an electing small business trust), and the phaseout threshold is \$82,050 for 2018. The corporate AMT is repealed effective for tax years beginning after December 31, 2017.