AMT Tax Legislation

The Alternative Minimum Tax (AMT) was enacted in 1969 primarily to require very wealthy taxpayer with large income tax deductions to pay their "fair" share. The AMT is a parallel tax system to which all Americans are subject. Every taxpayer must compute federal income tax under each set of rules, the regular and the AMT. If the AMT rules produce a greater federal income tax, the excess of the tax computed under the AMT rules over the tax computed under the regular tax rules is the alternative minimum tax.

For the tax year 2006, approximately 4 million Americans were subject to the AMT. This number will increase to an estimated 25 million unless tax legislation is passed and signed into law by the President. The estimated additional cost to each of these 21 million taxpayers is up to $2,000. Since 2001, when the increased exemptions from AMT expired, legislation was passed and signed into law that temporarily increased the exemptions from AMT (often called a "patch"). The increased exemptions expired again last year.

A bill was proposed and passed by the House to provide relief for 2007; however the legislation contained other provisions. Specifically, the House legislation would tax the income of private equity managers at ordinary tax rates (up to 35%) as opposed to the current rule that taxe such income at 15%. The estimated additional tax on private equity managers is $80 million in tax revenue for the federal government. The House reasoning is that the government should pay for the tax relief that would be granted by the AMT patch. The President stated that, "I will veto any bill that raises taxes as a condition of fixing the AMT".

Further compounding the problem is that the Internal Revenue Service has already sent all of the 2007 tax forms to the government printer and its computers are programmed based on the current law, not the legislation. The IRS indicated that it will take an estimated ten weeks to update its computer programs after any legislation is signed into law. Given that Congress is out for Thanksgiving recess (as of this writing), even if a compromise can be reached between Congress and the President, legislation is passed and then signed into law, the IRS computers will not be able to properly process 2007 income tax returns until some time in February.

So where does that leave American taxpayers? Many American, especially those with refunds due file as early as possible. Given that 1099s and W-2s are required to be sent to taxpayers no later than January 31st, many Americans expecting refunds file around February 1st. Unfortunately, that is not an option this year. Moreover, because the beginning of filing season will be delayed, there will be a ripple effect throughout the balance of filing season. Thus, plan on your refund being delayed.

The Alternative Minimum Tax was enacted in 1969 to tax 155 very wealthy taxpayers. Now, the AMT will tax 25 million people without further legislation and more than 4 million taxpayers even with patch legislation. In each of the last five years, Congress waited until the eleventh hour and then passed only patch legislation. It is time for Congress to face the AMT issue head on and pass legislation so that the AMT meets its objective of taxing only the very wealthy and not the entire middle class.

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