CPA Practice Advisor

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[This is part of a special series of articles designed to maximize tax benefits and minimize tax pitfalls at the end of the year.]

The alternative minimum tax (AMT) is often referred to as a "stealth tax" because it sneaks up on unsuspecting taxpayers. But you're not doing your job well if your clients are caught unawares. Take the time to contact clients who are in the danger zone and conduct a year-end evaluation. The results may provide an opportunity to avoid the brunt of the AMT or, much to a client's surprise, embrace it in full force.

Here's the crux of the matter: The AMT is a parallel tax system that runs side-by-side with the regular income tax system. In effect, a taxpayer must pay the higher of the regular tax liability or the AMT. The difference between the two taxes is calculated on Form 6251, *Alternative Minimum Tax – Individuals*.

There are several critical differences between the regular income tax calculation and the one used for AMT.

For the regular tax liability , you add up client's total income, subtract various deductions to find the amount of taxable income and then calculate the tax. The seven-rate graduated tax structure features a low of 10% and a high of 39.6%. The client's tax liability may be reduced still further though tax credits.

Conversely, the AMT calculation is based on a different income computation and just two tax rates. Briefly stated, you arrive at AMT liability by making various adjustments and adding back certain items into income, including so-called "tax preference items, then subtracting an AMT exemption based on filing status, and finally multiplying the result by the appropriate tax rate.

Although the AMT exemption amounts have increased slightly over recent years, they still don't make a big enough dent for many taxpayers. For example, the exemption amounts for 2014 are $52,800 for single filers and $82,100 for joint filers.

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you may find that a slight change in the way the client does things, such as delaying or omitting certain tax preference items, can reduce or even eliminate AMT liability. But this estimate might indicate that the client simply can't avoid the AMT altogether this year. In that case, a radical approach may be a better solution.

Reverse strategy: Instead of trying to postpone taxable income, as is usually recommended, you may encourage an upper-income client to accelerate more taxable income into this year. For instance, if the client is a high-ranking executive, he or she may arrange to receive a year-end bonus in 2014 instead of 2015.

The reason is simple: Instead of paying income at a 35% or 39.8% rate, the extra income received in 2014 is taxed at a rate no higher than 28%. That's either 7% or 11.6% lower than the regular tax rate the client normally pays on taxable income. The tax savings could be worth the trade-off of paying tax on the income a year early.

Don't make any rash assumptions either way. Explain the options valuable to clients after the evaluation. At the very least, your clients won't be blindsided come tax return time.

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