

Consumers Digest



Alternative minimum tax affects middle class

If you live in a state with high income taxes, like Connecticut or New York, beware. The alternative minimum tax (AMT), which is not adjusted to inflation, is expected to affect more than 23 million taxpayers in 2007, many of them middle class, according to Tax Policy Center. "Most individuals do not realize that there are actually two tax systems: regular income tax and alternative minimum tax. When their tax returns are prepared, the tax due under each system must be compared and the higher of the two taxes paid," says Theodore D. Lanzaro Jr., president of Lanzaro CPA.

AMT is calculated by adding back certain taxes, including state income and real estate taxes, to taxable income. So, says Lanzaro, if you're married and filing jointly with AMT income over \$150,000 or single with AMT income over \$75,000, you may fall into this parallel tax universe. "Other potential add-backs to calculate AMT income include home-equity-loan interest, investment expenses, tax-exempt bond interest and incentive stock options," Lanzaro says.

"[T]he goal of AMT planning is not necessarily AMT avoidance but a reduction in total tax payments on a multiyear

basis," says John Nersesian of wealth-management services at Nuveen Investments. "It comes down to, what year should you make estimated tax payments to get the most from your deductions and offset AMT?" says Frank Marzano of GM Advisory Group.

To reduce tax burden, Nersesian suggests filing your taxes as close to January 1 as possible, delaying recognition of deductions and exemptions, reviewing fixed-income choices, and timing charitable contributions and capital gain recognition. "If you can pay just enough in estimated taxes to state and local government to prevent being subject to penalties for not paying enough but not enough to subject yourself to AMT (by reducing your tax burden too much), you can dodge paying AMT (that year)," Marzano says.

Salvatore P. Falzone of Rucci, Bardaro & Barrett suggests individuals "...maximize contributions to retirement accounts, take reimbursements for company expenses instead of deducting them yourself, and pass up immediate write offs, if you're a business owner."