



# Tax Planning & the AMT

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# Tax Planning

- Taxes should be considered year-round
- If you wait until 2005 to review 2004's taxes, you're already too late to make any changes
- 2 angles: Income & Deductions

# Tax Planning

- 1<sup>st</sup> Step: Determine which year (current or next), you'll have the highest tax bracket
- Consider
  - Income levels of both you and your spouse
    - Anyone retiring or returning to work?
  - Dependents in one year vs. the next
    - new babies on the way?
    - children turning 19 or graduating from college?

# Tax Planning

- If your tax bracket is greater this year than next:
  - Accelerate any deductions into current year
    - i.e. make pledges via credit card (even though no cash paid until the following year)
  - Delay all possible income until following year
    - Bonuses, Retirement Plan Distributions
    - Avoid Roth IRA conversions

# Tax Planning

- If your tax bracket will be greater next year than current:
  - Avoid any deductible expenses that can be pushed off until the next year (i.e. make December's mortgage payment Jan 1<sup>st</sup>)
  - Delay a costly (elective) medical procedure, such as braces or laser eye surgery, if your medical expenses are deductible
    - NOTE: medical expenses are only deductible if they are greater than 7.5% of Adjusted Gross Income. In some cases, it's beneficial to accelerate medical expenses into a lower income year
  - Delay a tax-deductible contribution (such as SEP or 401(k)) until the following year, and then double contributions.
    - NOTE: consult Townsend & Associates in doing so, as many investments have annual limits and it may not be beneficial

# Alternative Minimum Tax

- The AMT is a separate tax system
- AMT is calculated via Form 6251, which is then attached to the 1040
- In effect, you are simply adding back some tax deduction and income exclusions to your regular taxable income to arrive at your alternative minimum taxable income, which is then subject to different tax tables (26% on the first \$175,000 of income)

# Alternative Minimum Tax

- The AMT ignores several itemized deductions
  - investment expenses
  - employee business expenses
  - medical/dental expenses
  - investment-related transactions
    - income from tax-exempt bonds
    - the “spread” on incentive stock options
  - state and local taxes
  - many others

# Alternative Minimum Tax

- Calculating the AMT
  - Complete tax return in usual manner
  - Fill out Form 6251, which calculates taxable income using AMT rules
  - Subtract an exemption, based on marital status
  - End Result = new taxable amount of income
  - AMT tax is calculated via the AMT tax tables

# Wrap Up

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- Use this mid-year timing to review tax-related benefits to make sure you're taking full advantage
    - 401(k)
    - Dependent Care Benefits
    - Medical Flex Spending Account
  - Tax planning is a money-saving practice, and reviewing your tax situation now will lead to success in tax season!
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Questions?

