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AMT and the individual investor

The Tax Cuts and Jobs Act (TCJA) modified the calculation for the alternative minimum tax (AMT) for tax years 2018 through 2025. As a result, fewer individuals will find themselves subject to AMT, partly due to the increased exemption amount and phase-out range.

How the AMT works

Alternative minimum tax was originally created to ensure the wealthy paid their fair share of taxes and did not take advantage of too many tax deductions. Unfortunately, due to lack of inflation adjustments it ended up impacting many middle income taxpayers. The Tax Cuts and Jobs Act increased the exemption and phaseout amounts to a level which should result in a lot fewer taxpayers being subject to AMT. For some it will still be important to understand how the general AMT calculation works. To determine your AMT liability, a separate calculation must be performed at the same time that your regular income tax liability is calculated.

Using IRS Form 6251, the AMT calculation requires you to add back certain tax deductions and income exclusions to your regular taxable income to arrive at your alternative minimum taxable income (AMTI). The following is a list of some common items that may increase your chances of paying AMT. For a complete list of AMT adjustments, see IRS Form 6251 at **irs.gov**.

- Standard deduction.
- Property tax, sales tax, state, local, and foreign-income-tax deductions, if you itemize. (These deductions are limited under the TCJA.)
- Interest from certain private activity municipal bonds.
- Incentive stock option (ISO) exercises where you still hold the stock after year-end.

Once you've completed Form 6251, you compare the result with the tax you calculated on your Form 1040. If the 1040 figure is larger, you pay that amount. If the Form 6251 amount is greater, the difference between the two amounts is your AMT, and you must pay it in addition to your regular income tax.

AMT tax brackets

The AMT calculation has only two tax brackets (the regular tax calculation has seven). After you subtract your exemption from your AMTI, you apply the appropriate AMT tax rate.

AMTI (after exemption)	AMT tax rate
$0 – $199,900†	26%
Over $199,900	28%

†$99,950 if married filing separately.

AMTI exemptions

If your AMTI is less than the amount shown below for your filing status, you won't be subject to AMT. If your AMTI exceeds the applicable exemption amounts, you may be subject to AMT. Consult your tax advisor to determine if you are subject to AMT.

Filing Status	Exemption Amount 2021	Exemption Phase-out Ranges 2021
Married filing jointly	$114,600	$1,047,200 – $1,505,600
Single filers	$73,600	$523,600 – $818,000
Married filing separately	$57,300	$523,600 – $752,800
Trusts and estates	$25,700	$85,650 – $188,450

Common misconceptions

Individuals often assume they are not subject to the AMT because they think it only affects people in the highest income-tax brackets. However, the type of income or deduction — not just the amount — can create an AMT liability. If you have a large enough dollar amount of a specific type of income or deduction, you may be subject to the AMT.

Another common misconception is that the AMT will not be triggered by only one or two items. In reality, the presence of just one item that can trigger the AMT may create an AMT liability if the amount of that item is sufficiently large.

Finally, the AMT calculation must be performed each year. A taxpayer who was not subject to the AMT in the prior year should not assume he or she won't be subject to it in the current year.

Effects on municipal bond investors

The tax-exempt interest from certain private-activity municipal bonds issued after August 7, 1986, is considered taxable income for AMT purposes. However, this rule does not apply to any private-activity bond issued in 2009 or 2010. Private-activity bonds (also known as "AMT bonds") are those that support qualified projects of nongovernmental entities. If an investor is subject to the AMT, owning this kind of bond could create a tax liability on what would otherwise have been tax-exempt municipal income. By contrast, tax-exempt interest from non-AMT muni bonds has no effect on an individual's AMT calculation.

You can count on us

Predicting whether you'll ever pay the AMT is difficult. Your Financial Advisor will work with you and your tax advisor to help reduce your potential AMT exposure. You should consult your tax advisor with specific questions regarding your AMT exposure.

A bond's designation as an AMT bond may not be important for bondholders who are not subject to AMT. In fact, if you are not subject to AMT, you may actually benefit by purchasing tax-exempt, private-activity bonds. AMT decreases the demand for AMT bonds by reducing the number of individuals willing to buy them. As a result, these bonds often provide additional yield over non-AMT bonds with the same rating and maturity.

Long-term capital gains may have a downside

Long-term capital gains are taxed at the same rate for regular tax and AMT. But because the AMT exemption gets phased out at higher income levels, a substantial capital gain could increase the likelihood you'll have to pay AMT. In addition, a long-term capital gain may result in more state and local income taxes, depending on your state tax laws. This same outcome may occur with other types of uncommon spikes in income, such as a Roth IRA conversion.

Potential AMT relief

Some relief is available for taxpayers who were subject to AMT in the past. You may be able to reduce your tax liability if you have a minimum tax credit carryforward from prior years. Consult your tax advisor.

Talk to Wells Fargo Advisors

We welcome the opportunity to work with you to help you achieve your financial goals. Let us know if there are any other topics or services of interest to you.

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