<u>Extension of Relief from AMT</u>

Brief overview of the AMT.

Earlier temporary measures to deal with the AMT expired at the end of last year, meaning that an estimated 15 million additional taxpayers would have faced paying the tax on their 2006 returns without the new relief. The AMT is a parallel tax system which does not permit several of the deductions permissible under the regular tax system, such as state, local and property taxes. Taxpayers who may be subject to the AMT must calculate their tax liability under the regular federal tax system and under the AMT system. If their liability is found to be greater under the AMT system, that's what they owe the federal government. Originally enacted to make sure that wealthy Americans did not escape paying taxes, the AMT has started to apply to more middle-income taxpayers, due in part to the fact that the AMT parameters are not indexed for inflation.

In recent years, Congress has provided a measure of relief from the AMT by raising the AMT “exemption amounts” - allowances that reduce the amount of alternative minimum taxable income (AMTI), reducing or eliminating AMT liability. (However, these exemption amounts are phased out for taxpayers whose AMTI exceeds specified amounts.) For 2005, the AMT exemption amounts were \$58,000 for married couples filing jointly and surviving spouses; \$40,250 for single taxpayers; and \$29,000 for marrieds filing separately. However, for 2006, those amounts were scheduled to fall back to the amounts that applied in 2000: \$45,000, \$33,750, and \$22,500, respectively. This would have brought millions of additional middle-income Americans under the AMT system, resulting in higher federal tax bills for many of them, along with higher compliance costs associated with filling out and filing the complicated AMT tax form.

New law provides one-year stopgap fix.

To prevent the unintended result of having millions of middle-income taxpayers fall prey to the AMT, Congress has once again relied on a temporary “patch” to the problem, this time a one-year extension of the 2005 AMT exemption amounts, increased slightly. Under the new law, for tax years beginning in 2006, the AMT exemption amounts are increased to: (1) \$62,550 in the case of married individuals filing a joint return and surviving spouses; (2) \$42,500 in the case of unmarried individuals other than surviving spouses; and (3) \$31,275 in the case of married individuals filing a separate return.

Personal credits may be used to offset AMT through 2006.

Another provision in the new law provides AMT relief for personal tax credits. The tax liability limitation rules generally provide that certain nonrefundable personal credits (including dependent care, elderly and disabled, and Hope Scholarship and Lifetime Learning) are allowed only to the extent that a taxpayer has regular income tax liability in excess of the tentative minimum tax, which has the effect of disallowing these credits against AMT. Temporary provisions had been enacted which permitted these credits to offset the entire regular and AMT liability through the end of 2005. The new law extends this temporary provision to tax years beginning in 2006.