

Connecticut Taxpayers Need To Be Prepared For AMT (A Mean Tax) By Ted Lanzaro, CPA

Some Connecticut taxpayers may be in for big surprise this year. The Alternative Minimum Tax (AMT) is set to affect even more taxpayers in 2007. 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.

The AMT originally was added to the tax code to prevent high income taxpayers from using preferential tax breaks to escape payment of income taxes. However, in recent years, more middle income taxpayers have been affected by the “mean” tax. Mean because it penalizes taxpayers who pay high state taxes, take dependent exemptions for their children and have other large deductions which reduce taxable income under the regular tax system.

The AMT is a bear trap just waiting for you, the unsuspecting taxpayer, to step into it. Here are seven of the traps that could cost you an arm and a leg:

- 1. Real estate, property taxes and state income taxes** - deductible under the regular tax system, not deductible under the AMT system.
- 2. Home Equity Loan Interest** – deductible on loan up to \$100,000 used for any purpose under the regular tax system, deductible on loan up to \$100,000 used only for house purchase or improvement under the AMT system
- 3. Investment Expenses** – amounts deductible to the extent they exceed 2% of adjusted gross income for regular tax purposes, not deductible under the AMT system.
- 4. Miscellaneous Itemized Deductions** - amounts deductible to the extent they exceed 2% of adjusted gross income for regular tax purposes, not deductible under the AMT system.
- 5. Tax-exempt Bond Interest** – not considered taxable income for regular tax purposes, may be considered taxable income for AMT system in certain circumstances.
- 6. Long term Capital Gains and Qualifying Dividends** – taxed at the same rate under both systems but they both increase state taxes which are a primary cause of AMT tax liability.
- 7. Incentive Stock Options** – A stock option allows an individual to purchase a share of stock for less than its market value. Typically, these options are given to employees of public companies as part of their compensation package. Under the regular tax system, no taxes are due until the stock received from the exercise of the options are sold at a gain. Under AMT rules, taxes are due on the difference between the option price and the fair market value of the stock at the time the options are exercised even though no cash was received by the taxpayer.

What can be done to avoid these traps? Do you want to know whether you are going to get caught in these traps? The rules governing the AMT system are very complex and related to each individual differently. The best strategy is to contact a certified public accountant and ask them to prepare a tax projection for you prior to year end. The tax professional may also suggest ways in which the AMT can be avoided based upon your specific circumstances.

Ted Lanzaro, CPA “The Millionaire Tax Advisor” owns and operates Lanzaro CPA, LLC, a tax strategy, accounting and business advisory firm with offices in Shelton, CT. The firm concentrates on providing advisory services, education and products design to promote business development, tax savings and wealth creation. He can be reached by phone at 203-924-5760 or via email at Ted@lanzarocpa.com. You can subscribe to “The Millionaire Tax Advisor” Newsletter at www.millionairetaxadvisor.com. You can also get a copy of Ted’s special report “10 Proven, Totally Legal and Effective Tax Strategies That Will Put Thousands In Your Pocket Every Year” at his website www.lanzarocpa.com

You should consult a tax professional prior to implementing any of the tax planning strategies to make sure it fits your specific situation.