Dear Client,

I am writing to provide details regarding two key provisions in the recently enacted "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010." The provisions extend partial relief to individual taxpayers from the alternative minimum tax, or AMT. Earlier temporary measures to deal with the unintended creep of the AMT's reach expired at the end of 2009, meaning that more than 20 million additional taxpayers would have faced paying the tax on their 2010 returns without the new relief.

Brief overview of the AMT. The AMT is a parallel tax system which does not permit several of the deductions permissible under the regular tax system, such as property tax. Taxpayers who may be subject to the AMT must calculate their tax liability under the regular federal tax system and under the AMT system taking into account certain "preferences" and "adjustments." 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 Originally enacted to make sure that wealthy Americans did not escape paying taxes, the AMT has started to apply to more middle-income taxpayers, due in part to the fact that the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 2009, the AMT exemption amounts were $70,950 for married couples filing jointly and surviving spouses; $46,700 for single taxpayers; and $35,475 for married filing separately. However, for 2010, 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 two-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 two-year extension of the 2009 exemption amounts, increased slightly. Under the new law, for tax years beginning in 2010, the AMT exemption amounts are increased to: (1) $72,450 in the case of married individuals filing a joint return and surviving spouses; (2) $47,450 in the case of unmarried individuals other than surviving spouses; and (3) $36,225 in the case of married individuals filing a separate return. For tax years beginning in 2011, the AMT exemption amounts are increased to: (1) $74,450 in the case of married individuals filing a joint return and surviving spouses; (2) $48,450 in the case of unmarried individuals other than surviving spouses; and (3) $37,225 in the case of married individuals filing a separate return.

Personal credits may be used to offset AMT through 2011. Another provision in the new law provides AMT relief for taxpayers claiming personal tax credits. The tax liability limitation rules generally provide that certain nonrefundable personal credits (including the dependent care credit and the elderly and disabled credit) 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 the AMT. Temporary provisions had been enacted which permitted these credits to offset the entire regular and AMT liability through the end of 2009. The new law extends this temporary provision to 2010 and 2011.

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call.

Very truly yours,

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