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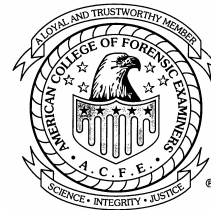
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April 2004

Memo To: All Tax Clients

Re: “Stealth Tax” – The Alternative Minimum Tax (“AMT”)

The Alternative Minimum Tax (“AMT”) is a growing tax problem that has already started to affect taxpayers. AMT will affect more taxpayers in the future. Unless the AMT tax problem is resolved, many middle-class taxpayers will be faced with a tax burden that was never intended to be placed upon them.

Issue: There is a provision in the federal tax code called the Alternative Minimum Tax. As the name implies, it is a separate and alternative method of calculating your income tax liability. In practice, every tax return is calculated using the tax tables, or tax rate schedules, to derive your “regular” income tax liability. But at the same time, your tax is also being calculated under the AMT method. Your actual tax will be whichever calculation provides for the greater amount of tax liability, regular tax versus the AMT tax. This is why some analysts call the AMT tax, the alternative MAXIMUM tax. This problem is also affecting Minnesota income tax filers as well.

Background: The AMT tax was enacted by Congress in 1969 as a way to make sure that around 200 very wealthy individuals would pay their fair share of taxes. These individuals had been paying very little, or no income tax, as a result of various tax shelters. Accordingly, passing the AMT provisions corrected that inequity. Minnesota enacted a similar AMT tax provision in the early 1970’s, for the same reason.

Problem: The AMT laws that were enacted in 1969 had good intentions; however, the problem today is that the AMT exemption, or base floor amount, has not been significantly adjusted for inflation since 1969. Therefore, it is projected that by 2010 more than one-third of all federal taxpayers will be in AMT. According to the Urban-Brookings Tax Policy Center, 73% of tax filers making \$75,000 to \$100,000 will be in AMT and more than 36% of all filers earning from \$50,000 to \$75,000 will join them. In 2010 for example, 97% of all married couples with two children that earn between \$75,000 and \$100,000 will pay almost \$3,000 more in tax as a result of the AMT calculations. Also, since Minnesota has a high income tax and a high property tax, we are more likely to wind up in AMT. These amounts are not deductible when calculating your federal AMT. By contrast, those people that live in a state with little or no income tax (there are 7 states with no state income tax), or lower property taxes, will have a better chance of reducing their AMT burden. Taxpayers rejoiced when they were told they would receive tax cuts, but these tax cuts only apply to the regular tax, not necessarily to the calculation of your AMT tax. This dual tax system is in effect, “giving” out with one hand and “taking” back with the other hand.

This problem is not limited to the federal tax return. The State of Minnesota has its own AMT calculations that are more restrictive than the federal AMT. For example, the Minnesota AMT calculation does not allow a deduction for home mortgage interest. Nor does it fully allow deductions for charitable contributions. The federal AMT does at least allow for these deductions. It is possible to be in the Federal AMT and not the State AMT, and vice versa.

William E. Bryant, CPA, CVA

Stealth Tax – The Alternative Minimum Tax

Page 2

Additional Tax Revenues: The federal AMT is expected to bring in an additional \$16 billion dollars for the US Treasury in tax revenues for 2003. This amount is projected to rise to \$85 billion in 2008. For Minnesota, the state AMT will bring in an additional \$26.4 million in 2003; this number is projected to be \$40.9 million in 2005, then \$70 million by 2007 and is expected to grow at a steady rate thereafter.

Fixing the Problem: For Minnesota, the cost of fixing the AMT problem is still manageable, given the total dollar amounts. This is not the case at the federal level. To repeal the Federal AMT would cost \$600 billion over the next 10 years. This cost rises to \$1 trillion dollars if President Bush's tax cuts are made into permanent law. Some experts suggest that we keep the AMT calculation in principle, but increase the exemption floor so that middle income taxpayers are not trapped, which was never the intent of AMT in the first place. But this "correction" would cost at least \$300 billion over the next 10 years.

The ability to fix the problem is compounded by the current government financial condition. The federal government is currently running huge fiscal deficits which do not include the cost of the Iraq War, or other Homeland Security programs. We also have the so-called "baby boomers" retiring in 2008, which will increase the entitlement obligations on the US Treasury at that time. To date, the Government Accounting Office (GAO) indicates that there are around \$2 trillion of IOU's with regard to money borrowed from the social security trust fund over the years and commingled with the general revenue fund. The GAO also estimates that the present value of future entitlement obligations are around \$12 trillion dollars, which is also unfunded at this time. None of these figures include the future funding of rising Medicare costs.

As you can see, our politicians will have some tough choices to make regarding future tax policy and budget appropriations.

The purpose of this letter is to inform you of the impending AMT problem, so that you aware of the potential tax consequences. I have included a copy of federal form 6251 and the state form M1MT for your review.

Sincerely,

A handwritten signature in black ink that reads "William E. Bryant". The signature is written in a cursive, flowing style.

William E Bryant, CPA, CVA

▶ See separate instructions.

2003

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1040NR.

Attachment
Sequence No. **32**

Name(s) shown on Form 1040

Your social security number

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 38, and go to line 2. Otherwise, enter the amount from Form 1040, line 35, and go to line 7. (If zero or less, enter as a negative amount.)	1		
2	Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% of Form 1040, line 35 .	2		
3	Taxes from Schedule A (Form 1040), line 9	3		
4	Certain interest on a home mortgage not used to buy, build, or improve your home	4		
5	Miscellaneous deductions from Schedule A (Form 1040), line 26	5		
6	If Form 1040, line 35, is over \$139,500 (over \$69,750 if married filing separately), enter the amount from line 9 of the worksheet for Schedule A (Form 1040), line 28	6	()
7	Tax refund from Form 1040, line 10 or line 21	7	()
8	Investment interest expense (difference between regular tax and AMT)	8		
9	Depletion (difference between regular tax and AMT)	9		
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10		
11	Interest from specified private activity bonds exempt from the regular tax	11		
12	Qualified small business stock (see instructions)	12		
13	Exercise of incentive stock options (excess of AMT income over regular tax income)	13		
14	Estates and trusts (amount from Schedule K-1 (Form 1041), line 9)	14		
15	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	15		
16	Disposition of property (difference between AMT and regular tax gain or loss)	16		
17	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT).	17		
18	Passive activities (difference between AMT and regular tax income or loss)	18		
19	Loss limitations (difference between AMT and regular tax income or loss)	19		
20	Circulation costs (difference between regular tax and AMT)	20		
21	Long-term contracts (difference between AMT and regular tax income)	21		
22	Mining costs (difference between regular tax and AMT)	22		
23	Research and experimental costs (difference between regular tax and AMT)	23		
24	Income from certain installment sales before January 1, 1987	24	()
25	Intangible drilling costs preference	25		
26	Other adjustments, including income-based related adjustments	26		
27	Alternative tax net operating loss deduction	27	()
28	Alternative minimum taxable income. Combine lines 1 through 27. (If married filing separately and line 28 is more than \$191,000, see page 7 of the instructions.)	28		

Part II Alternative Minimum Tax

29	Exemption. (If this form is for a child under age 14, see page 7 of the instructions.)			
	<p>IF your filing status is</p> <p>Single or head of household. \$112,500 \$40,250</p> <p>Married filing jointly or qualifying widow(er) 150,000 58,000</p> <p>Married filing separately 75,000 29,000</p> <p>If line 28 is over the amount shown above for your filing status, see page 7 of the instructions.</p>			29
30	Subtract line 29 from line 28. If zero or less, enter -0- here and on lines 33 and 35 and stop here			30
31	<p>• If you reported capital gain distributions directly on Form 1040, line 13a; you reported qualified dividends on Form 1040, line 9b; or you had a gain on both lines 16 and 17a of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 65 here.</p> <p>• All others: If line 30 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result.</p>			31
32	Alternative minimum tax foreign tax credit (see page 7 of the instructions)			32
33	Tentative minimum tax. Subtract line 32 from line 31			33
34	Tax from Form 1040, line 41 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 44)			34
35	Alternative minimum tax. Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 42			35

Part III Tax Computation Using Maximum Capital Gains Rates

Caution: If you **did not** complete Part IV of Schedule D (Form 1040), see page 8 of the instructions before you complete this part.

36	Enter the amount from Form 6251, line 30				36
37	Enter the amount from Schedule D (Form 1040), line 26, or line 13 of the Schedule D Tax Worksheet on page D-11 of the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see page 8 of the instructions)	37			
38	Enter the amount from Schedule D (Form 1040), line 19 (as refigured for the AMT, if necessary) (see page 8 of the instructions)	38			
39	If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 38, and enter the smaller of that result or the amount from line 10 of the Schedule D Tax Worksheet (as refigured for the AMT, if necessary).	39			
40	Enter the smaller of line 36 or line 39				40
41	Subtract line 40 from line 36				41
42	If line 41 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 41 by 26% (.26). Otherwise, multiply line 41 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result ▶				42
43	Enter the amount from Schedule D (Form 1040), line 30, or line 19 of the Schedule D Tax Worksheet on page D-11 of the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax) (see page 8 of the instructions)	43			
44	Enter the smaller of line 36 or line 37	44			
45	Enter the smaller of line 43 or line 44	45			
46	If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from Schedule D (Form 1040), line 43 (or if that line is blank, the amount from Schedule D (Form 1040), line 31). Otherwise, enter the amount from line 32 of the Schedule D Tax Worksheet on page D-11 of the instructions for Schedule D (Form 1040) (or if that line is blank, the amount from line 20 of that worksheet). Refigure all amounts for the AMT, if necessary (see page 8 of the instructions)	46			
47	Enter the smaller of line 45 or line 46. If line 45 is zero, go to line 55	47			
48	Multiply line 47 by 5% (.05) ▶				48
49	Subtract line 47 from line 45. If zero or less, enter -0- and go to line 55	49			
50	Enter your qualified 5-year gain, if any, from Schedule D (Form 1040), line 35 (as refigured for the AMT, if necessary) (see page 8 of the instructions)	50			
51	Enter the smaller of line 49 or line 50	51			
52	Multiply line 51 by 8% (.08) ▶				52
53	Subtract line 51 from line 49	53			
54	Multiply line 53 by 10% (.10) ▶				54
55	Subtract line 47 from line 46	55			
56	Subtract line 45 from line 44	56			
57	Enter the smaller of line 55 or line 56	57			
58	Multiply line 57 by 15% (.15) ▶				58
59	Subtract line 57 from line 56	59			
60	Multiply line 59 by 20% (.20) ▶				60
If line 38 is zero or blank, skip lines 61 and 62 and go to line 63. Otherwise, go to line 61.					
61	Subtract line 44 from line 40	61			
62	Multiply line 61 by 25% (.25) ▶				62
63	Add lines 42, 48, 52, 54, 58, 60, and 62				63
64	If line 36 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 36 by 26% (.26). Otherwise, multiply line 36 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result				64
65	Enter the smaller of line 63 or line 64 here and on line 31				65





2003 Alternative Minimum Tax

Your first name and initial

Last name

Social Security number

Round all amounts to nearest whole dollar.

Before you complete this schedule, read the instructions on the back.

Additions	1 Federal adjusted gross income (from line 34 of your federal Form 1040)	1	_____
	2 Medical and dental adjustment (from line 2 of federal Form 6251)	2	_____
	3 Other adjustments and preferences (combine lines 8 through 27 of federal Form 6251)	3	_____
	4 Federal bonus depreciation addition (from line 3 of Form M1)	4	_____
	5 State and municipal bond interest from outside Minnesota (determine from instructions)	5	_____
	6 Intangible drilling costs (determine from instructions)	6	_____
	7 Depletion (determine from instructions)	7	_____
	8 Add lines 1 through 7	8	_____
Allowable federal deductions	9 Medical and dental deduction (from line 4 of federal Schedule A)	9	_____
	10 Investment interest expense (from line 13 of federal Schedule A)	10	_____
	11 Charitable contributions (determine from instructions)	11	_____
	12 Casualty and theft losses (determine from instructions)	12	_____
	13 Impairment-related work expenses of a disabled person (included on line 27 of federal Schedule A)	13	_____
	14 State income tax refund (from line 10 of federal Form 1040)	14	_____
Minnesota subtractions	15 Federal bonus depreciation subtraction (from line 11 of Form M1)	15	_____
	16 Net interest from U.S. bonds (determine from instructions)	16	_____
	17 Railroad Retirement Board pension or annuity income or Reservation income (add line 6 and line 7 of Schedule M1M)	17	_____
	18 Add lines 9 through 17	18	_____
Determining Minnesota alternative minimum tax	19 Subtract line 18 from line 8	19	_____
	20 If married and filing joint, or qualifying widow(er): enter \$40,000 If married and filing separate: enter \$20,000 If single or head of household: enter \$30,000	20	_____
	21 If married and filing joint, or qualifying widow(er): enter \$150,000 If married and filing separate: enter \$ 75,000 If single or head of household: enter \$112,500	21	_____
	22 Subtract line 21 from line 19 (if result is zero or less, enter 0)	22	_____
	23 Multiply line 22 by 25% (.25)	23	_____
	24 Subtract line 23 from line 20 (if result is zero or less, enter 0)	24	_____
	25 Subtract line 24 from line 19	25	_____
	26 Multiply line 25 by 6.4% (.064)	26	_____
	27 Tax from the table (from line 15 of your Form M1)	27	_____
	28 If line 26 is more than line 27, you must pay Minnesota alternative minimum tax. Subtract line 27 from line 26. Enter the result here and on line 16 of your Form M1. (If line 27 is more than line 26, see instructions on how to continue)	28	_____

If you are required to pay Minnesota alternative minimum tax, you must include this schedule and a copy of federal Form 6251 when you file your Form M1.