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Income Insights: Alternative Minimum Tax

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

Authors	Date	Topic
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Alternative Minimum Tax

The alternative minimum tax (AMT) is a parallel taxation system designed to ensure that taxpayers pay at least a minimum amount of tax regardless of deductions, credits, or other tax benefits they may claim under the regular tax system. The AMT calculation involves adjusting taxable income by adding back certain preference items and making specific adjustments.

Common AMT preference items that may be added back when calculating AMT taxable income include:

- **Incentive stock options (ISOs):** The spread in ISOs (the difference between the exercise price and the fair market value at the time of exercise) can be a significant AMT preference item if the stock acquired through the exercise is not sold before year-end.
- **Tax-exempt interest:** Interest from certain private activity bonds is typically added back to income.
- **Standard deduction:** If the standard deduction is claimed under the regular tax system, it must be added back for AMT purposes.
- **State and local tax deductions:** Deductions for state and local taxes (including property taxes) aren't allowed under the AMT.
- **Miscellaneous itemized deductions:** Certain miscellaneous deductions that are subject to the 2% adjusted gross income floor aren't deductible under the AMT.
- **Accelerated depreciation:** If accelerated depreciation methods are used for regular tax purposes, the excess depreciation may have to be added back for the AMT calculation.
- **Investment interest expense:** Investment interest that exceeds the taxpayer's investment income may need to be adjusted.
- **Certain business deductions:** Some deductions related to business income may need to be added back.
- **Certain losses:** Losses that are deductible under regular tax rules may also be added back.

Once AMT taxable income is calculated, it's reduced by the AMT exemption amount. For the 2026 tax year, the AMT exemption is $90,100 for taxpayers filing as single and $140,200 for married couples filing jointly. This exemption begins to phase out for higher-income earners. In 2026, these thresholds rolled back to their 2018 levels as a result of the One Big Beautiful Bill Act—the exemption now will begin to phase out at $500,000 in AMT taxable income for single filers and $1,000,000 for married taxpayers filing jointly. Depending on an individual's or a couple's AMT taxable income, the AMT exemption could be either reduced or eliminated, with the remaining amount subject to the AMT rate.

For married couples filing jointly and single filers, the first $244,500 of taxable AMT income is taxed at 26% while any amount above that is taxed at 28%. For taxpayers filing as married filing separately, the first $122,250 of taxable AMT income is taxed at 26% while any amount above that is taxed at 28%. Once this calculation is completed, the AMT foreign tax credit is subtracted from the result, and the tax amount at this point—referred to as the *tentative minimum tax*—is compared with the individual's or couple's regular income tax. The higher of these two amounts is the tax that must be paid. Because the AMT can significantly affect taxpayers—especially those with high deductions or specific types of income—it's essential to consider these preference items and adjustments when determining what tax strategies to employ for the year.

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