

REFORM AMT

Steve Leimberg's Estate Planning Email Newsletter - Archive Message #465

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From Steve Leimberg's Estate Planning Newsletter

Subject AMT - A Clear and Present Danger

Tom Clancy didn't write this nail biter - but he could have.

It contains the stealth of bombers - and for many - no make that most - of our clients - it may deliver as much explosive impact!

LISI Commentator Mike Nelson, Vice President and Senior Trust Officer of the Iowa Savings Bank in Carroll, Iowa suggests that AMT could stand for Awful Miserable Tax!

Here's Mike's analysis:

If EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001) had not been passed in 2001, there would be about 23 million taxpayers subject to AMT in 2012.

With EGTRRA's combination of lower income tax rates and higher credits, the number is expected to rise to 41 million.

If inflation exceeds 2.5%, that number will be even greater because the AMT is not indexed.

The burden will land largely on those with incomes between \$100,000 and \$500,000. Sound like anyone you know?

Those with incomes higher than that will be delighted with AMT. As the table below illustrates, the ultra wealthy get a tax reduction!

To give a good picture of how it might look if EGTRRA is made permanent and nothing else is done, the following table shows the income tax rate brackets from the government's tables and compares that to what effective rates would be required without the AMT to collect the same amount of tax revenue in each bracket in 2010.

Note the effective rate of 43% rate for the upper middle class.

It is obvious that middle to upper middle income taxpayers will get their heads handed to them on a platter.

Table Rate	10%	15%	25%	28%	33%	35%
Effective Rate	10.7%	16.3%	29.2%	33.8%	43.0%	33.2%
Percentage Change	+ 7.0%	+8.7%	+16.8%	+20.7%	+30.3%	-5.1%

By 2010, 97% of joint filers with 2 children and \$75,000 to \$100,000 income will be subject to AMT.

A political pledge to make EGTRRA permanent and never vote for a tax increase sounds good on a 30 second sound-bite, but it will lead directly to this result.

I'd suggest a name change to Alternative MAXIMUM Tax.

HOPE THIS HELPS YOU HELP OTHERS!

Michel Nelson

Edited by Steve Leimberg

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CITES:

Burman, Gale, Rohaly, and Harris, The Individual AMT: Problems and Potential Solutions, Urban-Brookings Tax Policy Center, Discussion Paper No. 5, September 18, 2002; and Martin Sullivan, Economic Analysis: AMT Changes Everything, Tax Analysts (on-line posting on September 24, 2002)