

**From the desk of
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We have a Flat Tax System! Strategies in dealing with the Alternative Minimum Tax

Despite all the discussion by the uninformed and those blissfully unaware, we in fact do have a flat tax in this country and have had it for decades.

It is known at the Alternative Minimum Tax which was instituted by Congress when there was an outcry by the media who brought out their ever favorite complaint that the wealthy supposedly do not pay their fair share of taxes.

The Alternative Minimum Tax (AMT) is in fact a very complex set of rules for those with higher incomes and large tax deductions such as mortgage interest, large donations, state and local income taxes, and large medical expenses.

Under the regular income tax process one adds up total income, subtracts allowable itemized deductions to arrive at the amount of taxable income and then calculate the appropriate income tax.

There are seven-rate graduated tax brackets ranging from 10% and a high of 39.6%.

Conversely, the AMT calculation is based on a different income and deduction computation and applies one of two tax rates, those being 26% and 28% depending upon the total amount of net taxable AMT income.

The AMT tax liability is computed with various adjustments adding back certain items into income, including so-called "tax preference items, then subtracting an AMT exemption based on filing status, and then applying the one of two flat tax rates, those being either 26% or 28%, not the much discussed 10% rate that many suggest for a flat tax. In fact as far back as 1986 the GAO (then known as the Government Accounting Office) suggested that if a true flat tax was instituted that rate would have to be no less than 35%, and that was in 1986.

Those subject to the AMT generally have as stated above larger itemized tax deductions than the average taxpayer, but are allowed a maximum of \$53,600 for single filers, and \$83,400 for joint filers, and \$41,700 for marrieds filing separately.

These amounts are further reduced as those taxpayers incomes increase.

The reduction in 2015 is equal to 25 cents for each dollar of AMT income above \$119,200 for single filers, \$158,900 for joint filers and \$79,450 for marrieds filing separately.

The lower AMT tax rate of 26% applies to AMT income up to \$185,400 in 2015.

The higher 28% AMT rate is used for amounts above the \$185,400 threshold.

While most taxpayers attempt to avoid the AMT, sometimes it is a good strategy for these taxpayers to increase their AMT liability.

There is a range in which could be the optimal to stay in the AMT tax rates due to the fact that if one's income exceeds those AMT rate calculations one then reverts to the higher tax brackets as the calculation is in reality a floating point which is designed to exact the higher of the two tax systems. Extensive analysis is required to determine the best approach in any given tax situation.

Interestingly the outcries of the media that promoted the AMT system was due to the fact that there were approximately 200 taxpayers in the US during the early 1980's that

did not pay any income tax. This was an abomination to the media at the time. After Congress instituted the highly complex AMT system which ensnared thousands of taxpayers at the time, and has increased to millions as the system has been tweaked and mostly misunderstood, the same 200 taxpayers continue not to pay any income taxes.

Our emphasis at Muffoletto & Company is to provide you the proper guidance and understanding of the system so that you avoid taxes to the extent that the law allows.

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