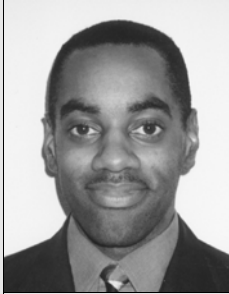




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Volume IX



Kevin Turner, CFS
Financial Advisor

Stewardship Emphasis

Because what you don't know can hurt you, it pays to arm yourself with knowledge so you can make informed decisions to keep more of what you've earned.

Review back issues of *The Empowerment Channel* online at: www.peaklevelinc.com

The Sleeping Giant Called the AMT - Part 2

In the last issue of The Empowerment Channel we discussed the basics of the Alternative Minimum Tax (AMT) and reviewed where the AMT hits taxpayers the hardest. In this issue we will explore the red flags you should watch out for and show you how to determine if you might be an unsuspecting casualty of the AMT.

An AMT Red Flags Watch List

Itemized deductions, personal exemptions and tax credits allow taxpayers to reduce their taxable income, but under the AMT calculation, the preferential treatment received is reduced or eliminated. We discussed some items in general in the last issue, but the following are some of the potential triggers to moving you into the growing AMT family.

- ☞ Large number of personal exemptions – the dependents or exemptions you claim on your income tax return (accounting for a \$3,100 deduction from income in 2004) are not accounted for with the AMT, taking away deductions for families with children or other dependents
- ☞ Real Estate interest outside of First Mortgage – interest from home equity loans, refinances, second mortgages, etc., which are normally deductible are not allowed under AMT rules
- ☞ Large amount long term capital gains – income from long term capital gains (with a maximum tax rate of 15%) have the effect of reducing your income taxes, but with all AMT income subject a single rate, the benefit of the lower capital gains rate is eliminated
- ☞ Large amount of miscellaneous itemized deductions – the Schedule A miscellaneous deductions like investment expenses and fees, un-reimbursed employee expenses, tax preparation fees, etc. that are deductible when in excess of 2% of income are not deductible for AMT purposes
- ☞ Large deductions for taxes paid – the deduction for state and local income tax withheld as well as real estate taxes and personal property taxes are not deductible when calculating the AMT
- ☞ Tax Credits – many tax credits normally available are not allowed under the AMT, although some “personal credits” are still allowed

Computing the AMT Tax

Now that you know some items that could subject you to the AMT, let's review a simplified version of the calculation. To determine your AMT tax due, start with your regular taxable income, add back personal exemptions, disallowed deductions and preference items, and adjust for any depreciation differences. That number is then reduced by the AMT exemption amount to come up with the AMT taxable income. The AMT tax due is a flat 26% for amounts less than \$175,000/\$87,500 (married/single) and 28% above \$175,000/\$87,500. To illustrate how the tax could come into play, review the example calculation at the right based on a family of 5 with gross income of \$130,000 in 2005.

As you can see, you don't have to have an exotic lifestyle to find yourself at the mercy of the AMT. Take the time now to review your situation with a tax professional and prepare yourself so you don't end up with an unwanted surprise next April.

Example AMT Calculation

Gross Income	\$130,000
(+) Cap. Gain Income	10,000
Adj. Gross Income	140,000
(-) Item. Deductions	44,800
(-) Exemptions	16,000
Taxable Income	79,200
(+) Exemptions	16,000
(-) Item. Deductions	
Tax Withheld	10,000
RE, PP Taxes	3,400
Misc. Deductions	2,400
(-) AMT Exemption	45,000
AMT Taxable Income	66,000
Normal Tax Due	\$12,593
AMT Tax Due	\$17,160
Additional AMT Tax	\$4,567



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Money Concepts Capital Corp.,
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7121 Fairway Drive
Palm Beach Gardens, FL 33418
Phone: 561-472-2000 Fax 561-472-2094
www.moneyconcepts.com

For a free consultation or for more information contact

Atlanta Perimeter Location:
5825 Glenridge Dr.
Bldg. 3, Suite 101
Atlanta, GA 30328
Phone: 770-804-0428 • Fax: 770-828-0108 • E-Mail: ktturner@moneyconcepts.com

North Atlanta Location & Correspondence:
1010 Huntcliff
Suite 1350
Atlanta, GA 30350
Main Office: 1204 Old Hammond Chase, Atlanta GA 30350