

# MEET THE ENEMY

With the number of people falling prey to the alternative minimum tax climbing fast, it may be time to familiarize yourself with Form 6251

**IF FILLING OUT THE STANDARD 1040 INCOME-TAX FORM SEEMS** tortuous, wait until you encounter Form 6251, which computes the alternative minimum tax. You do it after you've done the 1040, and it makes you recalculate your tax bill using a different and generally more complex set of rules. You then pay whichever amount is higher.

Perhaps you've been able to ignore Form 6251 before, but no more. This levy is bearing down on more and more taxpayers—an estimated 3 million in this spring's filing season. If nothing's done to change the AMT, it will be a bulwark of the tax system by 2010, when it hits 33 million filers.

Even if you've encountered the 6251 before, brace yourself.

**LINE 1** The AMT hurts here because it takes away the standard deduction, plus exemptions of up to \$3,050 each for yourself, your spouse, and your dependents.

**LINE 2** AMT rules allow you to deduct medical expenses only when they exceed 10% of your income, instead of the 7.5% threshold under the conventional tax system. Add back the 2.5% difference.

**LINE 3** This is the killer item that throws a lot of people into the AMT, since it cancels the deduction for state, local, and foreign taxes.

**LINE 4** If you used a home-equity loan for, say, a car or tuition instead of a home, the AMT will take back the deduction for interest and add it to your income here.

**LINE 5** Got "miscellaneous deductions," such as fees for tax preparation and investment advice? On a 1040, you can deduct such costs once they exceed 2% of your adjusted gross income. On the AMT form, there's no write-off.

**LINE 7** Because the AMT knocks out deductions for state and local taxes, it's only fair to give an AMT deduction on refunds of these taxes.

**LINE 11** Some tax-free municipal bonds—generally those sold to finance a "private activity" like an industrial park—are not AMT-free. Add the interest here.

**Form 6251 Alternative Minimum Tax—Individuals**  
OMB No. 1545-0227  
2003  
Attachment Sequence No. 32  
Your social security number

▶ See separate instructions.  
▶ Attach to Form 1040 or Form 1040NR.

**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 2% 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 29.  | 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 G)   | 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 | <b>Alternative minimum taxable income.</b> 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.)  |                                      |                                    |
|    | <b>IF your filing status is . . .</b>   | <b>AND line 28 is not over . . .</b> | <b>THEN enter on line 29 . . .</b> |
|    | Single or head of household . . .   | \$112,500 . . .                      | \$40,250                           |
|    | Married filing jointly or qualifying widow(er) . . .  | 150,000 . . .                        | 58,000                             |
|    | Married filing separately . . .   | 75,000 . . .                         | 29,000                             |
|    | If line 28 is over the amount shown above for your filing status, see page 7 of the instructions.   |                                      |                                    |
| 30 | Subtract line 29 from line 28. If zero or less, enter -0- here and on lines 33 and 35 and stop here.  |                                      |                                    |
| 31 | • 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 reduced for the AMT, if necessary), complete Part III on the back and enter the amount from line 65 here.<br>• 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. |                                      |                                    |
| 32 | Alternative minimum tax foreign tax credit (see page 7 of the instructions)   |                                      |                                    |
| 33 | Tentative minimum tax. Subtract line 32 from line 31.   |                                      |                                    |
| 34 | Tax from Form 1040, line 41 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 44)   |                                      |                                    |
| 35 | <b>Alternative minimum tax.</b> Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 42.  |                                      |                                    |

For Paperwork Reduction Act Notice, see page 8 of the instructions. Cts. No. 136005 **Form 6251**

DAVID RUDES

The form may prove more difficult this year, in part because the new tax rates on capital gains and dividends introduce extra steps, says Fred Grant, senior tax analyst at Intuit, publisher of TurboTax software.

Here we walk you through the AMT form, highlighting the portions applicable to the greatest number of taxpayers. Part I takes several cherished deductions and exemptions from the 1040 and adds them back to taxable income. Part II calculates what you owe under the AMT. Investors will not be able to do that without a detour to Part III (not shown), which incorporates capital gains and dividend income. *-By Anne Tergesen*

**LINE 13** If you exercise incentive stock options and decide to hold the stock, you'll defer regular income tax on the gain until you sell. AMT payers pay right away.

**LINE 28** This is your AMT taxable income.

**LINE 29** The AMT gives you an exemption— \$40,250 for singles and \$58,000 for couples. But the exemption phases out between \$112,500 and \$273,500 for singles and \$150,000 and \$382,000 for marrieds.

**LINE 30** Take your taxable income on line 28 and subtract line 29's exemption. A positive result means you might owe AMT.

**LINE 31** Calculate what you owe—26% up to \$175,000 and 28% on the excess. If you have income from dividends, capital gains, or some other assets, go to Part III (not shown), which blends AMT rates with the generally lower rates on investment gains.

**LINE 33** This is your AMT tax bill.

**LINE 34** Retrieve your regular tax from line 41 of your 1040.

**LINE 35** If your AMT liability is higher, enter the difference here. You've got to pay this extra amount on top of whatever you owe on your 1040.

