

THE AMT NET

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In this past months edition of *Fortune Small Business* columnist Brian O'Reilly made this excellent analogy...

Imagine for a moment that your local police set out to trap a few wily burglars but wound up clumsily ensnaring you and others, the town's shopkeepers, factory owners, and doctors. The town officials discover they can make so much money from fines on their ever-growing population of jailbirds that they allow the burglar traps to remain in place forever. That in essence is what is happening to the nation's tax system, thanks to the alternative minimum tax, or AMT.

The AMT was originally just an obscure caveat of the tax code that was instituted in 1969 for the sole purpose of taxing 200 wealthy families whose bright accountants helped them avoid any tax liability. The AMT today has become a nondiscriminatory net that snags millions of upper-middle and middle-class families. The income threshold that qualifies someone as "rich" was never adjusted for inflation therefore, a family earning \$75,000 is caught in this huge net. Taking inflation into account \$75,000 in 1969 is \$397,683.92 today.

Small-business owners in the United States have been hit very hard by the AMT. Entrepreneurs tend to earn more and 90% of small businesses have their profits taxed as personal income, whether it is an S Corp or an LLC. When a small-business owner's income is ensnared by the AMT many business deductions become invalid. For example: Accelerated depreciation of new machinery or equipment and the ability to deduct net operating losses.

Ten years ago, 700,000 Americans were affected by the AMT. In 2005 that number is four million, by 2006 twenty-two million. The Urban Institute Tax Policy center states by 2010 half of taxpayers earning between \$75,000 and \$100,000 will be hit. But only 35% of Americans earning 1 million or more will be affected. There are many lawful steps individuals and business-owners can do to help alleviate some of the pain from the AMT. If you need help feel free to contact us at (800) 447-0579.