

What is the legislative intent behind the corporate alternative minimum tax (AMT)? Define tax preference items, AMT adjustment, and minimum tax credit.

The purpose of an alternative minimum tax is so every taxpayer (including corporations) with considerable economic income pays a minimum tax regardless of the use of credits, deductions, and exclusions to decrease the income tax liability. Tax preference items are items added to a business's regular taxable income to arrive at its alternative minimum taxable income. These items can include the excess depletion deductions, excess drilling and development cost, excess accelerated depreciation, and tax-exempt interest on certain private activity bonds. These items increase taxable income. AMT adjustments can increase or decrease taxable income because they entail recalculating specific income, loss, gain, and deduction items. These adjustments are for depreciation and concern real property and personal property. The minimum tax credit stops items of income from being taxed twice (once under AMT rules and second under regular tax rules. This can be considered a type of prepayment of taxes that can be used to reverse future taxes. This reversal comes from claims on preferences and deductions used. This credit carries forward forever and counteracts regular taxes in future years only to the amount that regular taxes surpass the business's tentative minimum tax in the carry forward year.

Response 2

The alternative minimum tax recognizes an acceleration of income. The AMT rate is lower than the top corporate income tax rate, but can have a higher tax liability because the base is higher than the regular base. AMT is calculated by making adjustments for income gains and reductions. AMT is calculated when a corporation's tentative minimum tax is greater than its regular tax for the year.

Tax preference items:

Excess of depletion deduction for the year over the adjusted depletable property at the end of the year.

Excess intangible drilling and development costs.

Tax-exempt interest on private activity bonds.

Excess of accelerated depreciation on real property.

Adjustments are commonly depreciation adjustments that can be on real property and personal property.

A minimum tax credit can be issued and offset future tax liabilities. This prevents the same items from being taxed twice.

-All information referenced from the reading material Chapter 5.