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Plan ahead to ease the AMT's pain

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Last year's 11th-hour patch for the alternative minimum tax made it difficult to forecast the tax's effects on individual taxpayers.

By all accounts, the same thing could happen this year.

But accountants say planning can mitigate the effects of the tax for 2008.

Planning for the AMT is like any other tax planning, except that it's more complicated, said Robin Bell of Brown Smith Wallace LLC of Creve Coeur. She advises taxpayers to consult a tax adviser early in the year, especially if they expect big changes in their income.

"By the time it's time to file your return, there's nothing we can do to change the impact of the tax," she said.

Many people who are subject to the tax already pay quarterly estimated taxes to state governments, said Rich Petrofsky, a partner at RubinBrown, an accounting firm in Clayton. Some taxpayers increase their deductions in one year by paying the fourth installment before January.

State and local tax deductions aren't allowed under the AMT, so if the taxpayer thinks he will only be subject to the tax for one year, it may be advisable to pay state taxes in the lower-income year.

Executives who receive incentive stock options also need to consider the tax consequences, Petrofsky said. Profit from regular option exercises is taxed as ordinary income, while incentive stock options are an adjustment to AMT taxable income.

Taxpayers also may want to consult with a tax adviser before selling highly appreciated stock. Although capital gains aren't supposed to go into the AMT calculation, a large enough gain could boost adjusted gross income enough to trigger it, said Mark Heffernan, a principal with Moneta Group in Clayton.

However, taxpayers shouldn't delay a sale just for tax reasons, said Mike Evans, tax services director for Anders Minkler & Diehl LLC.

"If it makes sense economically to do certain things, the tax consequences often are secondary," Evans said. "The client needs to be aware of what those tax consequences are so they can make the decision."

Tom Ochsenschlager, vice president for taxation at the American Institute of Certified Public Accountants, said some taxpayers may want to consider taking a deduction for sales tax rather than state and local income taxes if the amount is lower.

The difference could be enough to keep a taxpayer out of the AMT, but it may require figuring the return both ways.

Because a large number of dependents also can trigger the tax, Ochsenschlager says taxpayers could claim fewer dependents on their regular return. Again, it might require figuring the return both ways to see which way gives an advantage.

Contributions to retirement plans also could help by trimming earned income. Employees can increase their 401(k) contributions so they reach the maximum of \$15,500. Anyone over 50 can make a catch-up contribution of \$5,000.

Individual retirement accounts are about the only way to reduce income for 2007 taxes at this point. Eligible taxpayers can contribute \$4,000 to an IRA for 2007 or \$5,000 for 2008. If you're over 50, you can contribute an additional \$1,000 to an IRA.

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