

Alternative Minimum Tax*

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Introduction

Congress imposes the alternative minimum tax (AMT) on taxpayers to prevent them from combining tax exclusions, deductions, and credits to pay very little or no federal income tax when they have significant income. When it was first enacted in 1969, the AMT affected only a few, very high-income taxpayers. Since it was first imposed, changes to the regular tax rules caused many more taxpayers to pay the AMT. Following the passage of the Tax Cuts and Jobs Act (TCJA), increased AMT phaseouts and exemption amounts have significantly reduced the number of taxpayers required to calculate and pay AMT. The One Big Beautiful Bill Act (OBBBA) of 2025 extends the TCJA exemptions permanently, with some modifications to the inflation adjustment and the phase-out of the AMT exemption. This article gives a basic explanation of the AMT and discussion of situations that cause taxpayers to pay the AMT.

The terminology of the AMT rules can be confusing because the tax that Congress calls the AMT is technically an add-on tax, rather than an alternative to the regular income tax—the AMT is added to the regular tax liability. The IRS follows the Congressional labeling and calls the amount of tax added to the regular tax the “alternative minimum tax.” Therefore, taxpayers report their regular income tax on their tax return, and then add on the AMT to find their total income tax liability for a respective tax year.

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While the AMT is technically an add-on tax, it has the effect of an alternative tax because taxpayers calculate their AMT by subtracting the regular tax liability from the “tentative minimum tax.” If the tentative minimum tax is less than the regular tax, there is no AMT. If the tentative minimum tax is greater than the regular tax, the AMT is the difference between the tentative minimum tax and the regular tax. Because the AMT is added to the regular tax, the effect of these rules is that taxpayers pay the higher of the regular tax or the tentative minimum tax. Therefore, the tentative minimum tax is, in effect, an alternative tax that taxpayers must pay if it exceeds their regular tax obligation.

Because the owners of partnerships, S corporations, and limited liability companies (LLCs) that are taxed as disregarded entities, are taxed on the income of those entities (the entities do not pay tax on the income), the individual AMT is the focus of this fact sheet. The AMT imposed on C corporations (CAMT) is discussed briefly at the end of the article.

AMT Exemption Amounts

Taxpayers reduce the AMTI by an exemption amount and multiply the result by the 26% (for the first \$206,100) and 28% (for any amount over \$206,100) AMT rates. Figure 1 shows the AMT exemption amounts provided in Internal Revenue Code Section 55(d)(1). However, Congress has increased these exemption amounts for taxpayers filing an individual return each year beginning in 2001. To illustrate the increases, Figure 1 also shows the exemption amounts that are in effect for 2024 and 2025

Figure 1. AMT Exemption Amounts

Filing Status	2024	2025
Married individuals filing jointly	\$133,300	\$137,000
Surviving spouses	133,300	137,000
Single Individuals	85,700	88,100
Married individuals filing separately	66,650	68,500
Estates and trusts	22,900	30,700

AMT Planning and Triggering Issues

This section discusses how the AMT affects taxpayers with large capital gains.

Taxpayers with Large Capital Gains

The AMT calculation allows taxpayers to use the same tax rate on capital gains as they use for regular tax liability. Although this provision appears to not trigger the AMT, taxpayers with large capital gains may be subject to AMT because of the loss of the AMT exemption. The tax on the capital gain does not change, but the tax on the ordinary income increases because the capital gains reduce the

AMT exemption, which increases the ordinary income that is subject to the AMT rates. For 2025, the phase-out begins when AMTI exceeds \$626,350 for taxpayers filing as single, head of household, or married filing separately. The phase-out begins at \$1,252,700 for joint returns and surviving spouses.

Planning Pointer

If capital gains cause you to pay the AMT, spreading them over more than one year can reduce or eliminate the AMT. Spreading capital gains can keep your AMTI below the threshold for reducing the AMT exemption amount, and therefore allow the exemption to offset the regular income.

Capital gains can be spread over more than one year by making an installment sale or by selling part of the assets in each of two or more years. Be sure to compare the tax savings with the risk of not getting paid on an installment contract or the risk of a price decrease if you delay selling part of the assets.

AMT for Corporations

The Tax Cuts and Jobs Act repealed the Corporate AMT (CAMT). However, the Inflation Reduction Act of 2022 reinstated the corporate AMT for tax years 2023 and beyond. This rule does not apply to S-corporations, REITs, investment companies and private equity funds.

Corporations with average annual book income exceeding \$1 billion for three consecutive years are subject to CAMT. CAMT will be 15% of corporate income. Corporations that are subject to CAMT will calculate their taxes under regular corporate tax rules and the CAMT and pay the larger of the two amounts.

It is important to note that the calculation is based on the corporation's book income, not taxable income. This is referred to as adjusted financial statement income, AFSI. This was seen as a way to avoid corporate tax incentives that reduce taxable income resulting in no or low tax liability.

IRS Publications

To access IRS forms, schedules, and publications, go to www.irs.gov and type the publication, form or schedule number or title in the search box.

- **Form 6251, Alternative Minimum Tax - Individuals:** More detailed information about the AMT for individual taxpayers

Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative

Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

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