

Time to bone up on 'alternative minimum tax'

AP — You might not think of yourself as wealthy but you may find yourself subject for the first time to what used to be thought of as a rich man's tax — the "alternative minimum tax."

The tax, which has gone through various changes since it was enacted in 1969, is aimed at ensuring that higher-income people pay some federal income tax regardless of how many deductions and credits they legitimately claim. In its latest version, the tax has been tightened considerably and applied to more individuals than ever before.

You pay the alternative minimum tax, which is at a flat rate of 21 percent, only if it is larger than what you would owe by calculating your taxes the usual way.

You may be required to make the minimum-tax calculation if, in filling out your regular tax return, you use any of 14 tax preferences. These include accelerated depreciation on real estate or other assets, incentive stock options, depletion or intangible drilling costs from oil and gas ventures, losses from investments in which you play only a passive role, or losses from tax-shelter investments in farming.

YOU SHOULD MAKE the mini-

mum-tax computation if any of those preferences you claim and your adjusted gross income together add to more than \$40,000 if you are married and filing a joint return, \$30,000 if you are single, or \$20,000 if you are married and filing a separate return.

Those figures are the exemption amounts for minimum-tax purposes and they decline gradually as income rises. There is no exemption once income exceeds \$310,000 for couples, \$232,500 for singles and \$155,000 for married people who file separately.

The normal standard deduction is not allowed in calculating minimum tax, nor are itemized deductions for state and local taxes, certain interest and most miscellaneous expenses.

The minimum-tax liability is computed by adding adjusted gross income, the selected tax preferences, the standard deduction and the forbidden itemized deductions, subtracting the minimum-tax exemption and multiplying what's left by 21 percent.

The only credit allowed is the foreign tax credit, and it can wipe out no more than 90 percent of minimum-tax liability.

IRS Publication 909 provides details about the tax.

Mortgage points may not be deductible

AP — You can't blame this on the 1986 tax overhaul, but those points you paid on your mortgage last year may not be fully deductible on the tax return you are about to file.

The IRS, interpreting a 1975 law, ruled in 1986 that loan-origination fees and other points charged solely for the use of money and not paid out of the proceeds of the loan must be deducted over the life of the mortgage.

There is a big exception to the general rule. The IRS will allow the deduction of points in the year they were paid if the loan backed by a mortgage on your principal home was used to buy or improve the home and if the points were in line with what is generally charged in your area.

But that exception will not help homeowners who refinanced their mortgages last year just to get a lower interest rate.

Two examples of how it works:

— Last year you borrowed \$100,000


for 30 years to pay off the existing mortgage on your home and were charged 3.6 points, or \$3,600. The lender did not subtract the points from the proceeds of the loan, but you paid them out of savings. Because the proceeds were used solely to pay off the old mortgage, the points must be deducted over the life of the loan — \$120 a year.

— You borrowed \$100,000 under the same terms but used \$80,000 of the money to pay off your old mortgage and the other \$20,000 for home improvements. You may deduct 20 percent of the points — \$720 on your 1987 return and write off the remainder over the life of the loan at a rate of \$8 per month.

The IRS interpretation is not the last word on this issue because it is subject to challenge in court. If you claim a points deduction that runs contrary to the rule, you eventually might have to back down or go to court to argue your case.

Similarity with the Spanish language and culture cannot deduct such expenses."

Another tax-overhaul provision disallows deduction of travel and other expenses for attending a convention or seminar unless the session has a direct relation to the taxpayer's business or trade.



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