25 Million Taxpayers May Owe $3,000 to $5,000 More at Tax Time

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Taxpayers in Calif., Fla. and N.Y. Stand to Be Hardest Hit

KANSAS CITY, MO, Nov 10, 2010 (MARKETWIRE via COMTEX) -- An estimated 25 million taxpayers -- more than five times as many as last year -- will owe an average of $3,000 to $5,000 more at tax time if Congress doesn't act on an expired provision, according to The Tax Institute at H&R Block.

The alternative minimum tax (AMT) was established in 1969 to catch high-income earners who avoid paying taxes due to certain tax breaks. Unlike other tax provisions though, AMT is not adjusted for inflation. Instead, Congress has relied on "patching" the rule to ease the burden on the middle class as income levels increased.

The last patch expired Dec. 31, 2009, dropping 2010 AMT income exemption amounts to $33,750 for single filers and $45,000 for joint filers. Without a 2010 patch, taxpayers may owe the IRS an average of $3,000 to $5,000 more for income above these amounts that's subject to AMT. By comparison, the 2009 exemption amounts -- with an AMT patch -- were $46,700 for single filers and $70,950 for joint filers.

"In less than 60 days, millions of taxpayers could owe the IRS thousands more on April 15 if Congress doesn't pass an AMT patch," said Kathy Pickering, executive director of The Tax Institute. "There's a lot of talk about the Bush tax cuts but the fact is those won't impact taxpayers until they file their 2011 returns in 2012. AMT impacts taxpayers this year."

Research shows continuing to patch the AMT each year will cost $1 trillion over the next decade, while permanently repealing the AMT would cost approximately $1.4 trillion. The Tax Institute's research also shows taxpayers in high income tax states such as California, Florida and New York will be hit hardest without a patch because state and local taxes aren't deductible against AMT.

"Without a patch or major changes, credits middle-income taxpayers look forward to such as the dependent care credit, certain higher education and energy efficiency credits won't be available to offset the taxes under the AMT system," said Pickering. "Taxpayers should talk with a tax professional about strategies for predicting and minimizing the AMT's impact including making tax-advantaged investments into retirement accounts and reducing their taxable income."

AMT Examples

Marcia Garcia is a single parent with two children. Her 2010 wages were $65,000 and she withheld $4,000 from federal taxes during the year. Her children are under age 13 and she pays $6,000 a year for both children for afternoon daycare. Based on her regular tax liability, Maria is expecting a small refund this year.

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--  If the AMT is patched, Maria's refund is $340.
--  If the AMT is not patched, Maria will owe $2,725, a difference of
    $3,065, consisting of $1,865 for AMT, plus the $1,200 child care
    credit for which she no longer qualifies.
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Rita and Paul Richmond are married, file a joint return and have one child who is a college freshman and another child in graduate school. Their total wages for 2010 were $85,000. They withheld $1,000 for federal taxes during the year and made several qualifying home energy efficiency improvements. Based on their regular tax liability, the Richmonds are expecting a refund.

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--  If the AMT is patched the Richmond's refund is $642.
--  If the AMT is not patched, the Richmonds owe $3,864, a difference of
    $4,506, consisting of $1,006 in AMT, plus the $2,000 education credits
    and $1,500 home energy credits for which they no longer qualify.
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Experts at The Tax Institute at H&R Block are available for additional AMT analysis and comment.

*The President's Economic Recovery Advisory Board

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