pools and hot tubs does not count. A credit for 30 percent of the amount paid for qualified fuel cell property up to a maximum credit of $500 for each 0.5 kilowatt of capacity is also allowed, with no cap on the total credit which may be claimed. The credits in these categories may be claimed on both a principal and a second residence.

**EXAMPLE**  
In 2007, Mary buys $8,000 of solar energy equipment to heat her home. She may claim a credit of $2,000 (30% of $8,000 is $2,400 limited to a maximum of $2,000).  
In 2008, Mary buys $4,000 of solar water-heating equipment for her second (vacation) home. She may claim a credit of $1,200 (30% of $4,000) for 2008.

**Self-Study Problem 6.7**

Calculate the energy credit allowed for the following purchases:

a. Geoffrey purchases a Toyota Prius in May of 2007. Assume Geoffrey's credit is not limited by the alternative minimum tax.

   Credit Allowed _________

b. Gwen purchases $2,000 of qualified, energy-efficient insulation and $2,000 of energy-efficient windows for her principal residence in 2007.

   Credit Allowed _________

c. Parker purchases $5,000 of qualified, energy-efficient insulation for his second (vacation) home in 2007.

   Credit Allowed _________

d. Betty purchases a solar system to heat her hot tub for $2,000 and a second, certified, energy-efficient solar system to heat her home for $10,000 in 2007.

   Credit Allowed _________

**SECTION 6.8  THE INDIVIDUAL ALTERNATIVE MINIMUM TAX (AMT)**

A last minute change to the AMT exemption amounts was passed by Congress and signed into law December 26, 2007 after this text went to press. Please see the changes highlighted in the following pages. Many individual taxpayers are subject to two parallel tax calculations, the regular tax and the alternative minimum tax (AMT). The AMT was designed in the 1960’s to ensure that wealthy taxpayers could not take advantage of special tax write-offs (tax preferences and other adjustments) to avoid paying tax. In general, taxpayers must pay the alternative minimum tax if their AMT tax liability is larger than their regular tax liability.

The AMT is calculated on Form 6251, using the following formula simplified for purposes of this text:

\[
\text{Regular Taxable Income (before exemptions and standard deduction)} + \text{Plus or minus AMT tax preferences and adjustments} = \text{Equals Alternative Minimum Taxable Income (AMTI)} \\
\text{Less AMT exemption (phased out to zero as AMTI increases)} = \text{Equals amount subject to AMT} \\
\text{Multiplied by the AMT tax rate (s)} = \text{Equals Tentative Minimum Tax} \\
\text{Less Regular Tax} = \text{Equals amount of AMT due with tax return if a positive amount}
\]

Common AMT Adjustments and Preferences

The terms “AMT Adjustment Items” and “AMT Preferences” are often used interchangeably, though they have slightly different meanings. In general, adjustments are timing differences that arise because of differences in the regular and AMT tax calculations (e.g., depreciation timing differences), while preferences are special provisions for the regular tax that are not allowed for the AMT (e.g., state income taxes). Both terms refer to items which adjust regular taxable income to arrive at income which is subject to alternative minimum tax. There are over twenty different types of adjustments and preferences used in the calculation of AMT on Form 6251. Some of the common adjustments and preferences are:

- The **standard deduction** allowed for regular tax is not allowed for AMT.
- **Personal and dependency exemptions** are not allowed as deductions for AMT.
- The deduction for AMT **medical expenses** must be limited to 10 percent of AGI rather than 7.5 percent as required by the regular tax.
- The deductions for **property tax, state income tax, and other taxes allowed as itemized deductions** for regular tax are not allowed for AMT.
- Only the deduction for home mortgage interest related to the purchase or improvement of a first or second residence is deductible for AMT, so the **interest deduction on home equity debt** of up to $100,000 used for personal purposes such as automobile purchases is not allowed for AMT.
- **Miscellaneous deductions** are not allowed for AMT.
- Because only certain itemized deductions are allowed for AMT, the regular tax **itemized deduction phase-out** for high-income taxpayers is not required for AMT.
- **Depreciation** is generally calculated over a longer life for AMT, sometimes using a different method.
- **Net Operating Losses** are calculated differently for AMT and often result in an adjustment when they are present.
- **State income tax refunds** are not considered income for AMT since the state income tax deduction is not allowed for AMT.
- **Private activity bond** interest is interest from certain municipal bonds not taxed for regular tax purposes, but taxable for AMT.
- Other less commonly seen AMT differences include such items as the calculations related to **incentive stock options, oil and gas depletion, research and development expenses, gains on asset sales such as rental real estate, passive losses, and the gain exclusion for small business stock and other items**.

The actual details of the calculation of several of the AMT tax preferences and adjustments are complex and infrequently seen in practice. For further information, please consult the IRS Web site, a tax service, or an advanced tax textbook.

AMT Exemption

In 2007, the AMT exemption **allowances are $66,250 for married taxpayers filing joint returns, $44,350 for single and head of household taxpayers, and $33,125 for married taxpayers filing separate returns**. The exemption allowance amount is phased out for high-income taxpayers. The amount of the exemption is reduced 25 cents for each dollar by which the taxpayer’s alternative minimum taxable income exceeds certain threshold amounts, which are $150,000 for married taxpayers filing a joint return, $75,000 for married taxpayers filing separately, and $112,500 for single taxpayers and taxpayers filing as head of household.

**EXAMPLE** Abby, a single taxpayer, has AMTI of $122,000 in 2007. Her AMT exemption is $41,975, which is calculated as $44,350 − [25% of ($122,000 − $112,500)].

AMT Tax Rates
For 2007, the alternative minimum tax rates for calculating the tentative AMT are 26 percent of the first $175,000 ($87,500 for married taxpayers filing separately), plus 28 percent on amounts above $175,000. These rates are applied to the taxpayer’s alternative minimum tax base from the formula above. The alternative minimum tax rate for capital gains and dividends is limited to the rate paid for regular tax purposes (e.g., gain or dividends taxed at 15 percent for regular tax purposes will also be taxed at a 15 percent alternative minimum tax rate).

EXAMPLE
Teddy has an alternative minimum taxable income of $270,000, none of which is from capital gains. His tentative AMT tax is $72,100, which is calculated as \((26\% \times $175,000) + (28\% \times ($270,000 - $175,000)).\)

The AMT has become a controversial tax in recent years. Many middle class taxpayers now pay alternative minimum tax because the reduction in tax rates in recent years has not been matched by a reduction in AMT tax rates and the AMT exemptions have not been indexed for inflation. Certain items not allowed as deductions for alternative minimum tax such as state income and property taxes, miscellaneous itemized deductions, including employee business expenses, and personal and dependency exemptions may cause a taxpayer to owe alternative minimum tax. Projections are that as many as thirty million taxpayers, or roughly 20 percent of all taxpayers, may be affected by AMT at the end of the decade.

**WOULD YOU BELIEVE?...**

When legislation was introduced (and failed) to repeal the federal individual alternative minimum tax in May 2005, Senator Baucus commented: “This weekend, millions of Americans watched in suspense as Anakin Skywalker was lured to the dark side and became Darth Vader. What millions of those same Americans may not be aware of is another Darth Vader lurking in our tax code; that is the AMT. Both Skywalker and the AMT started off with good intentions, but eventually they went astray. Now, the Darth Vader of the tax code is bearing down on millions of unsuspecting families. Repealing the AMT will protect millions of American families from this unfair and unexpected tax. It’s time to put the AMT in a galaxy far, far away and erase it from the tax code.” (Press release, Office of U. S. Senator Chuck Grassley)

An opposing opinion about the alternative minimum tax is that it represents a gradual implementation of a “flat tax” by accident rather than design. As the regular tax rate schedule is indexed up every year and the AMT rate schedule stays the same, more and more people will be taxed using the AMT’s nearly flat 26–28 percent rates and significantly limited deductions.

**EXAMPLE**
Gram and Sally are married taxpayers who file a joint tax return. Their taxable income and regular tax for 2007 are calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted gross income</td>
<td>$100,000</td>
</tr>
<tr>
<td>Itemized deductions</td>
<td></td>
</tr>
<tr>
<td>Home mortgage interest</td>
<td>$20,000</td>
</tr>
<tr>
<td>Contributions</td>
<td>2,000</td>
</tr>
<tr>
<td>Other miscellaneous deductions</td>
<td>11,000</td>
</tr>
<tr>
<td>(in excess of 2% of AGI)</td>
<td></td>
</tr>
<tr>
<td>Total itemized deductions</td>
<td>33,000</td>
</tr>
<tr>
<td>Exemptions</td>
<td>(6,800)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$60,200</td>
</tr>
<tr>
<td>Tax from 2007 Tax Table</td>
<td>$8,251</td>
</tr>
</tbody>
</table>

If Gram and Sally have private activity bond interest of $30,000 not included in arriving at the amount of adjusted gross income shown above, the amount of their alternative minimum tax is computed as follows:

Adjusted gross income $100,000
Add: tax preferences and adjustments 30,000
Total 130,000

Less allowable itemized deductions:
  Home mortgage interest $20,000
  Contributions 2,000
  Total deductions (22,000)

Alternative minimum taxable income 108,000
The AMT exemption (66,250)
Alternative minimum tax base 41,750
Gross alternative minimum tax (26% of $41,750) $10,855

Since the gross alternative minimum tax is greater than the regular tax, the taxpayers must pay a net alternative minimum tax of $2,604 ($10,855 – $8,251).

Their alternative minimum taxable income may also be computed by starting with taxable income of $60,200, adding the $6,800 of personal and dependency exemptions, adding back any itemized deductions which are not allowed for AMT purposes (other miscellaneous deductions of $11,000), and adding the $30,000 of tax preferences: $60,200 + $6,800 + $11,000 + $30,000 = $108,000.

This method of calculation is the one followed on Form 6251, Alternative Minimum Tax.

Many taxpayers in states with high state income tax are finding themselves paying the alternative minimum tax for the sole reason that their state income taxes and property taxes are not allowed as a deduction in the AMT calculation. Careful timing of state income tax and property tax payments may result in significant tax savings for taxpayers in this situation.

Self-Study Problem 6.8

Harold Brown, a single taxpayer, has adjusted gross income of $100,000. He has a deduction for home mortgage interest of $23,000, cash contributions of $11,000, property taxes of $10,000, state income taxes of $10,000, and miscellaneous itemized deductions (after the 2 percent limitation) of $10,000. If Harold's regular tax liability is $4,580, use Form 6251 on pages 6-21 and 6-22 to calculate the amount of Harold’s net alternative minimum tax. (Hint: First calculate taxable income before personal exemptions are taken, the starting point of Form 6251.)
## Section 6.9 - Unearned Income of Minor Children

### Form 6251

**Alternative Minimum Tax—Individuals**

- **See separate instructions.**
- **Attach to Form 1040 or Form 1040NR.**

**Your social security number**

### Part I - Alternative Minimum Taxable Income

(See instructions for how to complete each line.)

1. If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)

2. Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4, or 2.5% (.025) of Form 1040, line 38. If zero or less, enter 0.

3. Taxes from Schedule A (Form 1040), line 9.

4. Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions.

5. Miscellaneous deductions from Schedule A (Form 1040), line 27.

6. If Form 1040, line 38, is over $156,400 (over $78,200 if married filing separately), enter the amount from line 11 of the **Itemized Deductions Worksheet** on page A-10 of the instructions for Schedule A (Form 1040).

7. Tax refund from Form 1040, line 10 or line 21.

8. Investment interest expense (difference between regular tax and AMT).

9. Depletion (difference between regular tax and AMT).

10. Net operating loss deduction from Form 1040, line 21. Enter as a positive amount.

11. Interest from specified private activity bonds exempt from the regular tax.

12. Qualified small business stock (7% of gain excluded under section 1202).

13. Exercise of incentive stock options (excess of AMT income over regular tax income).

14. Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code 4).

15. Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6).

16. Disposition of property (difference between AMT and regular tax gain or loss).

17. Depreciation on assets placed in service after 1986 (difference between regular tax and AMT).

18. Passive activities (difference between AMT and regular tax income or loss).

19. Loss limitations (difference between AMT and regular tax income or loss).

20. Circulation costs (difference between regular tax and AMT).

21. Long-term contracts (difference between AMT and regular tax income).

22. Mining costs (difference between regular tax and AMT).

23. Research and experimental costs (difference between regular tax and AMT).


25. Intangible drilling costs preference.

26. Other adjustments, including income-based related adjustments.

27. Additional tax net operating loss deduction.

28. Alternative minimum taxable income. Combine lines 1 through 27. (If married filing separately and line 28 is more than $207,500, see page 2 of the instructions.)

### Part II - Alternative Minimum Tax

- **Exemption.** (If this form is for a child under age 18, see page 7 of the instructions.)
  - **If your filing status is . . .** AND line 29 is not over . . . THEN enter on line 29 . . .

  | Single or head of household | $112,500 | $44,350 |
  | Married filing jointly or qualifying widow(er) | 150,000 | 66,250 |
  | Married filing separately | 75,000 | 33,125 |

29. If line 28 is over the amount shown above for your filing status, see page 7 of the instructions.

30. Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter 0—here and on lines 33 and 35 and skip the rest of Part II.

31. If you are filing Form 2555 or 2555-EZ, see page 8 of the instructions for the amount to enter.
  - If you reported capital gains distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9c; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 33 here.
  - All others: if line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 28% (26%). Otherwise, multiply line 30 by 28% (26%) and subtract $5,000 ($1,750 if married filing separately) from the result.

32. Alternative minimum tax foreign tax credit (see page 8 of the instructions).

33. Tentative minimum tax. Subtract line 32 from line 31.

34. Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 51). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see page 9 of the instructions).

35. Alternative minimum tax. Subtract line 34 from line 33. If zero or less, enter 0. Enter here and on Form 1040, line 45.

For Paperwork Reduction Act Notice, see page 10 of the instructions.

### Part III  Tax Computation Using Maximum Capital Gains Rates

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Enter the amount from Form 6251, line 30. If you are filing Form 2555 or 2555-EZ, enter the amount from line 3 of the worksheet on page 8 of the instructions.</td>
<td>36</td>
</tr>
<tr>
<td>37</td>
<td>Enter the amount from line 6 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 13 of the Schedule D Tax Worksheet on page D-10 of the instructions for Schedule D (Form 1040), whichever applies (as figured for the AMT, if necessary) (see page 9 of the instructions). If you are filing Form 2555 or 2555-EZ, see page 10 of the instructions for the amount to enter.</td>
<td>37</td>
</tr>
<tr>
<td>38</td>
<td>Enter the amount from Schedule D (Form 1040), line 19 (as figured for the AMT, if necessary) (see page 9 of the instructions). If you are filing Form 2555 or 2555-EZ, see page 10 of the instructions for the amount to enter.</td>
<td>38</td>
</tr>
<tr>
<td>39</td>
<td>If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 38, and enter the smaller of that result or the amount from line 10 of the Schedule D Tax Worksheet (as figured for the AMT, if necessary). If you are filing Form 2555 or 2555-EZ, see page 10 of the instructions for the amount to enter.</td>
<td>39</td>
</tr>
<tr>
<td>40</td>
<td>Enter the smaller of line 36 or line 39.</td>
<td>40</td>
</tr>
<tr>
<td>41</td>
<td>Subtract line 40 from line 36.</td>
<td>41</td>
</tr>
<tr>
<td>42</td>
<td>If line 41 is $175,000 or less ($87,500 or less if married filing separately), multiply line 41 by 26% (.26). Otherwise, multiply line 41 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.</td>
<td>42</td>
</tr>
</tbody>
</table>
| 43   | Enter:  
- $63,700 if married filing jointly or qualifying widow(er),  
- $31,850 if single or married filing separately, or  
- $42,650 if head of household. | 43 |
| 44   | Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 14 of the Schedule D Tax Worksheet on page D-10 of the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter -0-. | 44 |
| 45   | Subtract line 44 from line 43. If zero or less, enter -0-. | 45 |
| 46   | Enter the smaller of line 36 or line 37. | 46 |
| 47   | Enter the smaller of line 45 or line 46. | 47 |
| 48   | Multiply line 47 by 5% (.05). | 48 |
| 49   | Subtract line 47 from line 46. | 49 |
| 50   | Multiply line 49 by 15% (.15). | 50 |
|      | If line 50 is zero or blank, skip lines 51 and 52 and go to line 53. Otherwise, go to line 51. | 50 |
| 51   | Subtract line 46 from line 40. | 51 |
| 52   | Multiply line 51 by 25% (.25). | 52 |
| 53   | Add lines 42, 48, 50, and 52. | 53 |
| 54   | If line 36 is $175,000 or less ($87,500 or less if married filing separately), multiply line 36 by 26% (.26). Otherwise, multiply line 36 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result. | 54 |
| 55   | Enter the smaller of line 53 or line 54 here and on line 31. If you are filing Form 2555 or 2555-EZ, do not enter this amount on line 31. Instead, enter it on line 4 of the worksheet on page 8 of the instructions. | 55 |

b. If the heat pump cost $3,500 and has a 3-year warranty, what is Mike’s credit? $ ____________

20. In 2007, Jeff spends $2,000 on certified, energy-efficient insulation for his main home and installs certified, energy-efficient windows costing $3,000.
a. What percentage is used to determine the credit for energy-efficient improvements to homes? $ ____________
b. What is Jeff’s credit for his 2007 purchases? $ ____________

21. Otto and Monica are married taxpayers who file a joint tax return. For the current tax year, they have adjusted gross income of $80,300. They have excess depreciation on realty of $67,500, which must be added back to arrive at alternative minimum taxable income. The amount of their mortgage interest expense for the year was $25,000, and they made charitable contributions of $7,500. If Otto and Monica’s taxable income for the current year is $41,000, determine the following amounts:
a. What is the amount of their regular income tax? $ ____________
b. What is the amount of their gross alternative minimum tax? $ ____________
c. What amount of tax must they pay? $ ____________

Note: This is an alternative minimum tax problem. Please see the revised Section 6.8 posted here.

22. Please list two common deductions which are allowed for regular tax purposes but are not deductible for alternative minimum tax (AMT) purposes.
________________________________________________________________________
________________________________________________________________________

23. Although the alternative minimum tax (AMT) is meant to prevent high-income taxpayers from using tax shelters to avoid paying tax, why might married taxpayers with several children living in a state with high state income taxes and property taxes (for example California or New York) find themselves paying AMT?
________________________________________________________________________
________________________________________________________________________

24. Why has the alternative minimum tax (AMT) become a controversial tax in recent years?
________________________________________________________________________
________________________________________________________________________

25. What are the two tax rates which are used to calculate alternative minimum tax, ignoring the special treatment of dividends and capital gains?
________________________________________________________________________
________________________________________________________________________

26. Please show the simplified formula for calculating AMT. Do not show tax rates or an exemption amount.
________________________________________________________________________
________________________________________________________________________

GROUP 3: COMPREHENSIVE PROBLEMS

1. David and Darlene Jasper have one child, Sam, who is 6 years old. The Jaspers reside at 4639 Honeysuckle Lane, Los Angeles, CA 90248. David’s Social Security number is 577-11-3311, Darlene’s is 477-98-4731, and Sam’s is 589-22-1142. David and Darlene’s earnings and withholdings for 2007 are:

David: Earnings from Apple Company (office manager) $25,000
Federal income tax withheld 2,800
State income tax withheld 1,050

Darlene: Earnings from Rose Company (perfume tester) $24,500
Federal income tax withheld 2,650
State income tax withheld 900

Their other income includes interest from Pine Tree Savings and Loan of $1,900. Other information and expenditures for 2007 are as follows:

Interest: On home acquisition mortgage $11,125
Credit card 925
Taxes: Property taxes on personal residence 1,515
State income taxes paid in 2007 (for 2006) 315
Contribution (with written acknowledgement) to church 410
Medical insurance 475
Medical and dental expenses 2,800
Income tax return preparation fee paid in 2007 200
Payment of union dues 225
Child care for Sam 3,500

Required: Complete the Jaspers’ federal tax return for 2007. Use Form 1040, Schedule A, Line 41 worksheet, and Form 2441, on pages 6-41 through 6-46. Assume any other data you need.

Problem 2A contains an alternative minimum tax calculation. Please see the revised Section 6.8 and the revised Form 6251 on page 6-53 posted here.

2A. Steve Jackson (age 51) is a single taxpayer living at 3215 Pacific Dr., Del Mar, CA 92014. His Social Security number is 465-88-9415. In 2007, Steve’s earnings and income tax withholding as the manager of a local hotel are:

Earnings from the Ocean View Hotel $100,000
Federal income tax withheld 27,300
State income tax withheld 6,300

Steve’s other income includes interest from SDG&E bonds of $2,500 and interest on a savings account at Wells Fargo Bank of $3,190. Also, Steve received tax-exempt interest of $29,200 on private activity bonds that is subject to alternative minimum tax. During the year, Steve paid the following amounts (all of which can be substantiated):

Home mortgage interest $31,700
Credit card interest 1,760
Auto insurance 900
State income taxes paid in 2007 (for 2005 audit) 12,540
Property taxes on personal residence 6,200
Kaiser HMO premiums 1,800
Other medical expenses 790
CPA fees paid to handle 2005 IRS audit 7,000
Charitable Contributions:
  Girl Scouts 800
  San Diego State University (contribution) 10,000
  Italian Red Cross 250

Required: Complete Steve’s federal tax return for 2007. Use Form 1040, Schedule A, Schedule B, Form 6251, and any other appropriate schedule(s) you need on pages 6-47 through 6-51. Make realistic assumptions about any missing data.

Problem 2B contains an alternative minimum tax calculation. Please see the revised Section 6.8 and the revised Form 6251 posted here.

2B. Kent Pham, CPA, is a 45-year-old single taxpayer living at 169 Trendie Street, La Jolla, CA 92093. His Social Security number is 865-68-9635. In 2007, Kent’s W-2 as the controller of a local corporation showed the following:

- Earnings from the Ocean View Hotel $130,000
- Federal income tax withheld $35,490
- State income tax withheld $12,090

Kent’s other income includes interest from GMAC bonds of $3,250 and interest on a savings account at The Cove Bank of $4,145. Also, Kent received tax-exempt interest of $37,960 on private activity bonds that is subject to alternative minimum tax.

During the year, Kent paid the following amounts (all of which can be substantiated):

- Home mortgage interest $42,210
- Home equity debt interest on loan used to purchase a Lexus $6,800
- Credit card interest $2,280
- California annual auto registration tax (deductible portion) $770
- Auto insurance $1,170
- State income taxes paid in 2007 (for 2006) $16,302
- Property taxes on personal residence $8,060
- Blue Cross premiums $2,340
- Other medical expenses $1,025
- CPA fees paid to handle 2005 IRS audit $9,100
- Charitable Contributions:
  - Tree-huggers Historical Society (a qualified charity) $1,040
  - Campanile Educational (a qualified charity) $12,000
  - Tecaté Orphanage (a Mexican organization) $500

Required: Complete Kent’s federal tax return for 2007. Use Form 1040, Schedule A, Schedule B, Form 6251, and any other appropriate schedule(s) you need on pages 6-47 through 6-51. Make realistic assumptions about any missing data.

GROUP 4:
CUMULATIVE SOFTWARE PROBLEM

The cumulative software problem contains an alternative minimum tax calculation. Please see the revised Section 6.8 posted here.

The following additional information is available for the Dr. Ivan and Irene Incisor family from Chapters 1–5.

In 1995, Ivan’s grandfather died and left a portfolio of municipal bonds. Ivan still owns these bonds and in 2007 they pay Ivan $50,000 in tax-free interest. Since the bonds are private activity bonds, the $50,000 is a tax preference for purposes of the alternative minimum tax (AMT). Assume for Chapters 6, 7, and 8 that Ivan’s federal income tax withholding from his wages is $12,000, not $6,000.

Required: Combine this new information about the Incisor family with the information from Chapters 1–5 and complete a revised 2007 tax return for Ivan and Irene. Be sure to save your data input files since this case will be expanded with more tax information in later chapters.

Please note: This problem requires the calculation of alternative minimum tax (AMT). The home equity interest of $900 on the purchase of an automobile is not deductible for AMT (See Line 4 of Form 6251) and the itemized deduction phase-out is not required (See Line 6 of Form 6251). Please also note that page 2 of Form 6251 must be filled in to calculate the lower AMT amount on qualified dividends.
**Questions and Problems 6-53**

**Part I**  
**Alternative Minimum Taxable Income** (See instructions for how to complete each line.)

1. If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)

2. Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4, or 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-.

3. Taxes from Schedule A (Form 1040), line 9.

4. Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions.

5. Miscellaneous deductions from Schedule A (Form 1040), line 27.

6. If Form 1040, line 38, is over $156,400 (over $78,200 if married filing separately), enter the amount from line 11 of the **Itemized Deductions Worksheet** on page A-10 of the instructions for Schedule A (Form 1040).

7. Tax refund from Form 1040, line 10 or line 21.

8. Investment interest expense (difference between regular tax and AMT).

9. Depletion (difference between regular tax and AMT).

10. Net operating loss deduction from Form 1040, line 21. Enter as a positive amount.

11. Interest from specified private activity bonds exempt from the regular tax.

12. Qualified small business stock (7% of gain excluded under section 1202).

13. Exercise of incentive stock options (excess of AMT income over regular tax income).

14. Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A).

15. Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6).

16. Disposition of property (difference between AMT and regular tax gain or loss).

17. Depreciation on assets placed in service after 1986 (difference between regular tax and AMT).

18. Passive activities (difference between AMT and regular tax income or loss).

19. Loss limitations (difference between AMT and regular tax income or loss).

20. Circulation costs (difference between regular tax and AMT).

21. Long-term contracts (difference between AMT and regular tax income).

22. Mining costs (difference between regular tax and AMT).

23. Research and experimental costs (difference between regular tax and AMT).


25. Intangible drilling costs preference.

26. Other adjustments, including income-based related adjustments.

27. Alternative tax net operating loss deduction.

28. **Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $20,700, see page 7 of the instructions).

**Part II**  
**Alternative Minimum Tax**

29. Exemption. (If this form is for a child under age 18, see page 7 of the instructions.)

   - If your filing status is... AND line 28 is not over... THEN enter on line 29...
     - Single or head of household... $112,500... $4,350
     - Married filing jointly or qualifying widow(er)... 150,000... 66,250
     - Married filing separately... 75,000... 33,125

   If line 28 is over the amount shown above for your filing status, see page 7 of the instructions.

30. Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 33 and 35 and skip the rest of Part II.

31. If you are filing Form 2555 or 2555-EZ, see page 8 of the instructions for the amount to enter.

   - If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as adjusted for the AMT, if necessary), complete Part III on the back and enter the amount from line 35 here.
   - All others: If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.

32. Alternative minimum tax foreign tax credit (see page 8 of the instructions).

33. Tentative minimum tax. Subtract line 32 from line 31.

34. Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 51). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be figured without using Schedule J (see page 9 of the instructions).

35. **Alternative minimum tax.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45.

For Paperwork Reduction Act Notice, see page 10 of the instructions.