Volume 28, January 2008

TAX LETTER

LONG TERM UNUSED MINMUM TAX CREDIT (LTMTC)

Dear Clients and friends:

This is our first 2008 tax letter. We would like to wish you a very, very prosperous New Year, and talk about a new 2007 refundable minimum tax credit.

By now, nearly everyone knew that Congress made certain last minute patching to the Alternative Minimum Tax (AMT). The AMT exemption was extended and increased for 2007. Married filing jointly, the AMT exemption was increased to $66,250, for Single tax payer filer the exemption would be $44,350.

Prior to the "patching" legislation, Congress did pass the Tax Relief and Health Care Act of 2006. This Act gave taxpayers with Long Term Unused Minimum Tax Credit (LTMTC) an opportunity to claim their credits against AMT in their 2007 income tax returns.

If so, what is LTMTC? To understand LTMTC, one must realize that the AMT is almost like another set of income tax in addition to the "Regular" income tax. This is why each year we have to recalculate our income taxes for AMT purposes after we have completed our calculation for Regular tax purposes. The result of this recalculation is known as the Tentative Minimum Tax (TMT). To calculate the TMT, we must recalculate or adjust our "Regular" taxable income into the AMT taxable income by certain preferences. These preferences can be classified into two distinct categories, namely the "Permanent" preferences and the Deferral" preferences. The AMT we must pay equals to the excess of TMT over "Regular" tax.

Although the "Permanent" preferences can not create any minimum tax credits, however, the "Deferral" preferences can. Accelerated Depreciation, Incentive Stock Options, etc. are examples of "Deferral" preferences. These preferences created certain Deferral and/or Timing problems for the taxpayers. Therefore, if any AMT required to be paid as a result of these Deferral and/or Timing problems, the taxpayers have certain Minimum Tax Credits (MTC) to be carried over to future years. These MTC can be claimed when once the Deferral and/or Timing problems worked their way thru the process. But in reality, these MTC can seldom be claimed by their owners. Therefore, many taxpayers have unclaimed MTC carried over for years. The 2006 ACT allowed these long term, unclaimed MTC to be used for the first time in 2007. The allowable MTC are known as LTMTC. They are AMT refundable credits.

To qualify for 2007, all MTC must be created in 2003 and earlier tax years. The qualified MTC from years 2003 and before must be reduced by any claim/usage in years 2004, 2005 and 2006. The excess, qualified MTC can be claimed as tax credits based on the following limitation:

(a) If the excess, qualified MTC were $5,000 or less, all are allowable.

(b) If the excess, qualified MTC were more than $5,000, the allowable amount would be **the greater** of $5,000 **or** 20% of the qualified MTC.

(c) Regardless the allowable amount, they will be subject to an income level phase out.

For married joint filers the allowable credit will begin to phase out when their Adjusted Gross Income (AGI) exceeds $234,600, and $156,400 for single filers.

(d) The phase out ratio will be 2% of each $2,500 in excess of the above applicable thresholds.

Finally, any excess, qualified MTC or phased out LTMTC can be carried over to 2008 and beyond. The 2007 last minute Technical Correction Act further liberalized the rate of utilization of any qualified MTC and LTMTC carried over to 2008 and beyond.

In conclusion, taxpayers who have been paying AMT in the past years should retrieve their old tax returns and records for a calculation and determination of any possible LTMTC refundable credits for 2007.