

TAX YEAR
2026

Alternative Minimum Tax

David Tucker CPA P.C.

12309 Limerick Ave
Austin, TX 78758
512-571-2849
979-488-9272 fax
E-mail: *David@Tucker.CPA*
Website: *Tucker.CPA*

Alternative Minimum Tax (AMT)

The alternative minimum tax (AMT) was originally enacted to ensure that high-income taxpayers pay at least a minimum amount of tax if they benefit from certain deductions and other tax preference items.

The AMT tax computation is a parallel system to the regular tax system with its own definitions of income and expenses, rules for income recognition and timing, exemptions, and tax rates. Although every taxpayer is subject to AMT rules, the additional tax is paid only if the tax computation under AMT rules is higher than the tax computed under regular rules.

How AMT Works

Certain items, called adjustments and preferences, are added to or subtracted from federal adjusted gross income reduced by any itemized deductions. An AMT exemption amount is allowed, depending on the taxpayer's filing status. The AMT tax rate of 26% to 28% is applied to the resulting alternative minimum taxable income. If the resulting tax is greater than regular tax, the difference is added to regular tax on Form 1040.

Example #1: *When computed under regular rules, John's income tax is $4,700. When computed under AMT rules, the tax amount is $3,900. Since his tax computed under AMT rules is less than his tax computed under regular rules, John will not pay any additional amount for AMT.*

Example #2: *Assume the same facts as Example #1, except when computed under AMT rules, John's tax amount is $5,100. Since his tax computed under AMT rules is higher than his tax computed under regular rules, John must pay the difference in additional tax. John must report additional AMT tax in the amount of $400.*

AMT Triggers

Items that commonly trigger AMT include high gross income relative to taxable income and exercise of incentive stock options. Other AMT adjustments and preferences include:

- Taxes from Schedule A (Form 1040).
- Tax refunds reported on Form 1040.
- Certain investment interest expense.
- Certain depletion expense.
- Net operating losses (NOLs).
- Interest from specified private activity bonds.
- A portion of gain from section 1202 small business stock.
- Certain gains from dispositions of property.
- Certain depreciation adjustments.
- Passive activity gains and losses.
- AMT loss limitations.
- Certain circulation costs.
- Long-term contracts.
- Certain mining costs.
- Certain research and experimental costs.
- Pre-1987 installment sale income.
- Intangible drilling cost preferences.

AMT Exemption Amounts

Filing Status	*2026*	*2025*
Single or Head of Household	$90,100	$88,100
Married Filing Jointly or Qualifying Surviving Spouse	$140,200	$137,000
Married Filing Separately	$70,100	$68,500



Alternative Minimum Tax

Phaseout

AMT exemptions start to phase out if alternative minimum taxable income (taxable income increased or decreased by the adjustments and preferences listed previously) exceeds $500,000 ($1,000,000 if Married Filing Jointly or Qualifying Surviving Spouse).

Incentive Stock Options—AMT Adjustments

The bargain element resulting from exercise of incentive stock options (ISO) is equal to the fair market value (FMV) of the stock minus the exercise price and is a deferral item for AMT purposes.

Event	Regular Tax Treatment	AMT Adjustment
Exercise of ISO	No tax due on ISO exercise.	• Positive AMT adjustment on line 2i, Form 6251, equal to bargain element.* • Increase AMT basis of stock by amount of adjustment.
Sale of stock	Tax treatment depends on whether required holding period is met.	• Negative AMT adjustment on line 2k, Form 6251, equal to bargain element.* • Adjustment is result of previous increase in AMT basis.

* No adjustment is made if exercise and sale occur in the same tax year.

Form 3921, *Exercise of an Incentive Stock Option Under Section 422(b),* may help in computing the adjustment.

Example: *Cindy exercised an ISO to acquire 100 shares of stock in 2026. Her rights in the acquired stock first became transferable on the date she exercised the ISO and were not subject to a substantial risk of forfeiture. She did not pay anything for the ISO and did not sell the acquired stock during 2026.*

Cindy received Form 3921 that shows $10 in box 3 (the exercise price paid for each share), $25 in box 4 (the fair market value of each share on the exercise date), and 100 shares in box 5 (the number of shares acquired). To calculate the adjustment, multiply the amount in box 4, $25, by the 100 shares in box 5. The result is $2,500, the fair market value of all the shares. Then multiply the amount in box 3, $10, by the 100 shares in box 5. The result is $1,000, the amount paid for all the shares.

Cindy's AMT adjustment is $1,500 ($2,500 – $1,000).

Potential tax credit. If the AMT adjustment due to exercise of an ISO results in an AMT liability, an AMT credit may be available in subsequent tax years.

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Personal Credits

An individual can claim nonrefundable personal credits against regular tax and AMT.

Nonrefundable Personal Credits	*Form/Sch.*
Adoption Credit	8839
Alternative Fuel Vehicle Refueling Property Credit	8911
America Opportunity Credit and Lifetime Learning Credit	8863
Child and Dependent Care Expense Credit	2441
Child Tax Credit	Sch. 8812
Credit for Other Dependents	Sch. 8812
Credit for the Elderly or the Disabled	Sch. R
Foreign Tax Credit (see *Foreign Tax Credit and AMT,* below)	1116
Mortgage Interest Credit	8396
Retirement Savings Contributions Credit	8880

Foreign Tax Credit and AMT

The AMT treatment of the Foreign Tax Credit depends on whether Form 1116, *Foreign Tax Credit,* is being filed.

Taxpayer elects not to file Form 1116.	• Report Foreign Tax Credit on Schedule 3 (Form 1040). • Credit is limited to amount of regular tax. • Unused Foreign Tax Credit may not be carried over.
Taxpayer files Form 1116.	• Recalculate Foreign Tax Credit using AMT rules. • AMT Foreign Tax Credit is used to offset AMT on Form 6251. • Unused AMT Foreign Tax Credit may be carried back one year and carried forward 10 years.

Credit for Prior Year AMT

The adjustments and preferences that result in AMT are of two types.

1) Deferral items, such as AMT basis adjustments, are temporary and do not cause a permanent difference in taxable income over time.
2) Exclusion items, such as taxes from Schedule A (Form 1040), are not allowed for AMT and therefore cause a permanent difference in taxable income.

The potential exists for income from deferral items to be taxed twice—first under AMT, and again in a later year under regular tax. A credit against regular tax for prior year AMT is available to address this situation.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.