



**MOORS & CABOT**  
INVESTMENTS

*Banking & Advisory Group*

# INVESTMENT INSIGHTS

## Perspective on AMT (Alternative Minimum Tax)

An increasing number of taxpayers now find it necessary to compute, and perhaps are even subject to paying, the alternative minimum tax ("AMT"). The AMT is aimed at taxpayers who enjoy substantial tax breaks vis-à-vis "adjusted gross income". The purpose of AMT is an attempt for everyone to pay at least a minimum amount of tax. Current tax law gives special treatments to exclude various kinds of income; or allows special deductions and credits for various expenses, generally for "passive" activities. These are called "tax preference" items. Taxpayers who benefit from these "preferences" now add the consolidated items to regular taxable income. After an exclusion amount, the taxpayer may have to pay at least a minimum amount of tax through the AMT.

Municipal bonds are one of the few tax-advantaged investments that have survived the Tax Reform Act of 1986, as amended. Yet, even this benefit has become a bit more limited.

Tax-exempt income, as it relates to municipal obligations, is income that is not included in an individual taxpayer's adjusted gross income for tax calculation purposes. Income from traditional General Obligation bonds, and from Revenue bonds to finance governmentally owned, operated and utilized projects, is typically tax-exempt and is not subject to AMT exposure, for individual taxpayers. However, bonds currently issued by state or local governments to provide funds to finance projects whereby: (a) 10% or more of the proceeds are used in a trade or business or (b) 5% or more of the proceeds are lent to a non-governmental entity or person, are considered "private activity" purposes.

Interest income derived from certain "private activity" bonds, if tax-exempt, are "preference items" and are subject to the AMT calculation (e.g., multi-family housing bonds, IRBs, etc.) Obligations financed for the exclusive benefit of 501(c)(3) organizations (e.g., qualified non-profits, colleges, hospitals, etc.) are considered "private activity" for tax law purposes. But, the tax code provides a specific exclusion from inclusion in the AMT calculation for 501(c)(3) bonds; and they are not considered "preference items" for the AMT calculation. The chart illustrates the process for determining the tax status of municipal obligations.

