

## GOVERNMENT & MEDICINE

# Many physicians will still be hit by AMT


**A quick fix by Congress late last year doesn't solve long-term problems with the alternative minimum tax, accountants say.**

By [Dave Hansen](#), AMNews staff. Jan. 28, 2008.

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**Washington --** Despite a last-minute reprieve from Congress at the end of 2007, the alternative minimum tax threatens to hit many doctors, particularly primary care physicians, come April 15. And election-year politics likely will prevent lawmakers from reforming or repealing it for the 2008 tax year, some experts predicted.

Congress established the AMT in 1969 to target wealthy Americans who qualified for so many deductions that they owed no tax. It disallows many common deductions, such as state and local taxes and imposes a flat rate (26% or 28%) on income after a large AMT deduction. Taxpayers calculate their tax liability under the regular and alternative minimum systems and pay the higher amount. The average extra tax imposed in 2006 was \$6,782, according to the Tax Policy Center, a Washington, D.C., joint venture of the Urban Institute and Brookings Institute.

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The alternative minimum tax affected only 20,000 taxpayers in 1970. Because Congress never indexed the tax for inflation, it affects far more today, particularly people with incomes between \$75,000 and \$200,000 a

year. It would have hit 23.4 million taxpayers before Congress passed a one-year "patch" last December that raised AMT deductions. Still, about 4 million people will pay the tax this year, said IRS spokeswoman Nancy Mathis.

In the physician community, the AMT is most likely to affect those at the lower end of the physician income range, said Joseph Nicola, tax manager specializing in the health care field for Sisterson & Co. LLP in Pittsburgh. Specialists typically are not affected by the AMT because they are in higher tax brackets and owe more under the regular system.

About 70% of family physicians, internists and pediatricians had net incomes of \$200,000 or less in 2006, according to a survey by Merritt, Hawkins and Associates, a physician search and consulting firm.

"The AMT is really affecting the middle-income taxpayers, and in many cases that includes physicians," Nicola said.

He used a general practitioner earning \$150,000 a year with

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a spouse and no children as an example. The doctor is still hit but not as hard as before lawmakers' last-minute change. Assume the doctor paid \$15,000 in state and local taxes, and \$15,000 in property taxes for a house. Additional deductions are \$7,000 in business expenses and \$10,000 in mortgage interest. The physician and spouse each take a personal deduction of \$3,400, leaving a taxable income of \$96,200 and a 2007 tax liability of about \$16,900, Nicola said.

When the tax is calculated using the AMT, gone are the personal exemptions, property tax, business expense, and state and local tax deductions, Nicola said. The doctor is allowed the \$10,000 mortgage interest deduction and a single AMT deduction of \$66,250. Taxable income is now \$73,750. Multiply it by the 26% AMT tax bracket and the physician's 2007 tax is \$19,175, Nicola said. Without the patch, the AMT deduction would have been \$45,000, making taxes \$24,700.

The tax also disproportionately affects physicians who take large deductions for medical equipment depreciation, which is allowed under the regular tax system but not the AMT, said Maggie Doedtman, an H&R Block enrolled agent. The more a doctor depreciates, the lower the physician's tax under the regular system and the more likely he or she will pay AMT, Doedtman said.

Congress acted so late in passing the patch that the IRS won't be able to release until Feb. 11 certain forms used by AMT filers, including those for education credits and mortgage interest. The IRS needed extra time to update and test its systems. This will delay filing for as many as 13.5 million taxpayers, according to the agency.

Taxpayers using software to file should make sure they get an update that incorporates the late patch, Nicola said. There are certain credits that offset the AMT, he added, including the Lifetime Learning Credit and Hope Scholarship Credit. The alternative minimum tax is a trap for the unwary, he added, because many cheap software programs either don't calculate it or do so inaccurately.

As for the 2008 tax year, physicians may want to consider bunching their deductions by delaying purchases that are deductible until the start of a new tax year, Doedtman said. They also may want to see if they can claim a different rate of depreciation for medical equipment that is taken as a deduction in a tax year, she added. Be sure to consult a tax professional and investment adviser, she recommended. "Working to mitigate these effects isn't for the faint of heart."

## **Outlook for 2008 legislation dim**

Congress has been talking about repealing the AMT for years. But don't expect action in the near future, said House Ways and Means Committee spokesman Matthew Beck. Despite universal agreement that the tax code is clunky and cumbersome, Democrats and Republicans can't agree on a solution to reform the tax system and replace the AMT, he said. The panel's chair, Rep. Charles Rangel (D, N.Y.), will hold hearings and continue discussions in 2008 on ways to reform the tax system, Beck said.

A Ways and Means Republican source said GOP committee members will push for at least another patch, well ahead of next year's tax filing season so the IRS doesn't have to delay

sending tax forms again.

AMT legislation is on the 2008 agenda for Senate Finance Committee Chair Max Baucus (D, Mont.), said panel spokeswoman Carol Guthrie. Baucus strongly prefers to repeal the tax, but that is a difficult proposition because it would be so expensive, she said. "The AMT is an outdated tax that hits taxpayers it was never meant to touch."

Guthrie did not have a current estimate of how much repealing the AMT would cost. The Tax Policy Center estimates that eliminating the AMT in 2007 would have reduced tax revenues by \$750 billion through 2016.

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#### ADDITIONAL INFORMATION:

### Impact of alternative minimum tax

The alternative minimum tax originally targeted 20,000 wealthy taxpayers who had little or no tax liability because they qualified for so many deductions. Today the tax affects millions of Americans because Congress never indexed it to inflation. Here are some AMT facts:

**4 million** The number of taxpayers the IRS estimates will pay AMT for 2007.

**23.4 million** The number who would have paid if not for an end-of-session bill passed by Congress raising AMT deductions for one year.

**39 million** The number paying by 2010 if the changes aren't renewed.

**80.4%** The percentage of taxpayers earning between \$100,000 and \$200,000 who would pay AMT by 2010 if the changes aren't renewed.

Sources: Internal Revenue Service; Tax Policy Center

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