

Multistate Audit Technique Manual 8510

The AMT provisions create an entire parallel system of taxation that generally targets corporations with Alternative Minimum Taxable Income (AMTI) over \$40,000.

The AMT is based on AMTI. The basic calculation of the AMT is:

Basic AMT Calculation	Discussion:
Net Income After State Adjustments ± Adjustments + Preference Items = Pre-Adjustment AMTI before ACE Adjustment and AMT NOL	The computation starts with regular California net income after state adjustments. Net income is then reduced or increased by AMT adjustments, and increased by tax preference items to arrive at "pre-adjustment AMTI."
Apportionment provisions are applied. = California pre-adjustment AMTI	At this point, the separate AMTI amounts of the members of a unitary group are combined, and apportionment and allocation procedures are applied to arrive at the California AMTI.
± ACE Adjustment = AMTI before NOL - AMT NOL Deduction = AMTI before Exemption	The ACE Adjustment and AMT NOL are applied on an individual taxpayer basis as explained in MATM 8540 .
- Exemption = AMTI	A maximum exemption of \$40,000 is allowed for each taxpayer.
x 6.65% Tax Rate (8.65% for financial corporations) = Tentative Minimum Tax (TMT)	After being reduced by the exemption amount, AMTI is taxed at a 6.65% (8.65% for financials) rate to determine TMT.
- California Regular Tax = Alternative Minimum Tax	If the TMT exceeds the regular tax, the excess is the alternative minimum tax (AMT).

The AMT for general and financial corporations represents the incremental portion of the tentative minimum tax (TMT) that exceeds the regular tax. If the regular tax exceeds the TMT, no AMT exists. This concept can be illustrated as follows:

Regular Tax:		\$50
TMT:		AMT
In this illustration, regular tax is \$50 and tentative minimum tax is \$75. The AMT is \$25		

Since AMT represents the excess of TMT over the regular tax liability, an increase to regular tax may decrease or possibly eliminate AMT. You need to consider this factor when determining the materiality of an audit issue.

Before surveying a return on the assumption that the AMT effect will result in insufficient tax potential, you and your supervisor should consider the fact that the AMT is generally considered a prepayment of tax. In years when the TMT exceeds the regular tax, a minimum tax credit is generated because AMT was imposed. See MATM 8580. That credit can be carried forward to offset the regular tax in years when the regular tax exceeds TMT. Although increasing the regular tax and reducing AMT may not result in a material tax effect in the current year, the minimum tax credit carried over to subsequent years will be reduced. This may have a substantial effect in future years. By the time that the minimum tax credit is used, the SOL for the year of the income adjustments may have expired. If an NPA or NPACA (see MAP 7.7) has not been issued, we may be barred from revising the amount of the minimum tax credit carryover. See MATM 9010.