

Multistate Audit Technique Manual 8580

When a taxpayer's TMT exceeds the regular tax, a Minimum Tax Credit (MTC) is generated. The MTC may be carried forward and applied against the regular tax in a year when regular tax exceeds TMT. The amount of MTC that can be applied in any taxable year is limited because the MTC cannot reduce regular tax below the TMT, but any unused MTC can be carried forward indefinitely. (See IRC Section 53 and R&TC Section 23453.)

The MTC reflects the intent of Congress for the alternative minimum tax system to be largely a pre-payment of tax. Many AMT adjustments are timing adjustments or deferrals that will turn around in subsequent years. The theory is that if taxpayers pay AMT on an item, they will be allowed a benefit in the subsequent year when the item results in a smaller deduction for regular tax purposes than for AMTI.

Application of MTC carryover:

The following example will illustrate how the MTC carryover is applied:

Example: The first year in which the taxpayer's tentative minimum tax exceeded its regular tax was 2010, resulting in an AMT. The AMT was reduced with an EZ credit. Assume the following facts for 2010 and 2011 as they apply to a corporate taxpayer and assume no MTC carryover credits were available to use for 2010:

	2010	2011
Tentative Minimum Tax	147,856	120,000
Regular Tax	54,928	140,000
AMT	92,928	-----
EZ Credit Used	(20,000)	-----
MTC Credit Used	-----	(20,000)
Total Tax	72,928	120,000
MTC Carryover	92,928	72,928

Since the TMT for the 2010 taxable year exceeded the regular tax, an AMT of \$92,928 was imposed. A minimum tax credit carryover of \$92,928 was generated in 2010 based on the AMT amount imposed. The MTC carryover computation is not reduced by the amount of EZ credit used.

In 2011, regular tax exceeded TMT by \$20,000. Assuming that the taxpayer has no other tax credits, \$20,000 of the MTC carryover may be applied in 2011 to reduce the regular tax liability to \$120,000. The remaining \$72,928 MTC will be carried forward to subsequent years.