How to Avoid the Alternative Minimum Tax (AMT) in 2025: Key Strategies for High-Income Earners

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The **Alternative Minimum Tax (AMT)** was originally created to ensure high-income taxpayers paid at least a minimum amount of tax. However, as income levels and deductions grow, individuals find themselves unexpectedly caught in the AMT net.

With the passage of the **2025 Big Beautiful Bill Act**, key deductions and income thresholds are shifting again. That makes **AMT awareness and proactive tax planning more important than ever**.

Here's what you need to know—and the strategies that can help you avoid AMT in 2025.

What Is the AMT?

The AMT is a parallel tax system with its own set of rules, rates, and deductions. Instead of taking advantage of the full array of itemized deductions and credits allowed under the regular tax code, AMT filers must recalculate income under the AMT formula, which disallows or limits certain benefits.

In 2025, the AMT exemption is expected to be:

- **$85,700** for single filers
- **$133,300** for married filing jointly (MFJ)

However, the **AMT exemption begins to phase out** at higher income levels:

- Phaseout starts at **$609,350 (single)** and **$1,218,700 (MFJ)** in 2025 (adjusted for inflation)

The AMT tax rates remain at **26% and 28%**, and the most common triggers are deductions or income sources that are treated differently for AMT purposes.

Common AMT Triggers for High-Income Professionals

- State and local tax (SALT) deductions
- High real estate or personal property taxes
- Incentive stock options (ISOs)
- Large miscellaneous deductions
- Private activity bond interest
- Accelerated depreciation
- High income with fewer dependents or standard deductions

2025 Strategies to Minimize or Avoid AMT Exposure

✔ 1. Monitor and Manage SALT Deductions

Even with the temporary $40,000 SALT deduction cap in place under the 2025 tax bill, **those deductions are disallowed under AMT**. If you live in a high-tax state like California, consider:

- Bunching deductions in alternate years
- Shifting deductions to a pass-through entity (PTE) when available
- Leveraging **state tax credit programs** where applicable

✔ 2. Time Incentive Stock Option (ISO) Exercises Strategically

Exercising ISOs can create a large AMT adjustment. To minimize the hit:

- **Exercise early in the year** to monitor market value changes

- Use **disqualified dispositions** when appropriate
- **Spread exercises** across multiple tax years

✔ 3. Avoid Large Miscellaneous Deductions

Deductions like unreimbursed business expenses, investment fees, and tax preparation fees are not allowed under AMT. If you're subject to AMT:

- Avoid relying on these deductions for planning
- Use accountable plans for employee reimbursements
- Maximize **above-the-line deductions** instead

✔ 4. Review Depreciation Schedules

Accelerated depreciation on business assets is often adjusted under AMT rules. Physicians in private practice or those owning real estate should:

- Use **straight-line depreciation** where feasible
- Consult your CPA when electing Section 179 or bonus depreciation

✔ 5. Use Qualified Charitable Contributions

Charitable giving is **still allowed under AMT**. If your itemized deductions are limited, charitable strategies can be a powerful planning tool:

- Donate appreciated securities
- Establish a **donor-advised fund (DAF)**
- Consider **charitable remainder trusts (CRTs)** for multi-year deductions

✔ 6. Consider Filing Separately (In Select Situations)

Married couples may lower their combined AMT exposure by **filing separately** if one spouse triggers AMT and the other does not. This must be carefully modeled to avoid losing other benefits.

✔ 7. Utilize Business Entity Structures

If you have 1099 income or own a practice, forming an **S corporation** or **partnership** can shift expenses above the line and reduce AMT exposure. Business deductions like retirement contributions, health insurance premiums, and accountable plan reimbursements can lower MAGI and AMT liability.

The Bottom Line: AMT Is Avoidable with Right Planning

At Cobalt PacWest | CPAs & Tax Advisors, we help clients understand not only their current tax exposure—but how small decisions today can create big savings tomorrow.

If your income is rising, you're exercising ISOs, or you're subject to high SALT or property taxes, you may be at risk for AMT in 2025.

At Cobalt PacWest | CPAs & Tax Advisors specializes in strategic tax planning + CPA-level comprehensive financial planning + tax compliance + business financial consulting + accounting services curated to meet the unique and personalized needs of professionals and executives, and physicians, medical specialist and healthcare professionals – from residency to retirement.

Uneasy about the financial decisions you are making for yourself and your family?

Are you concerned there is more you could (and should) be doing to save taxes and make progress toward the financial future you envision and deserve?

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Gain professional insight. Get your questions answered. Explore the potential.

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