



News Release

Media Contact only:

Nancy Kohler
Lande Communications
Phone: 800-993-7600, ext. 3#
Email: nkohler@landepr.com

Melissa Lande
Lande Communications
Phone: 800-993-7600, ext. 1#
Email: mlande@landepr.com

For Immediate Release

YOU OWE ALTERNATIVE MINIMUM TAX (AMT) FOR 2006

PPC Tax Analyst Offers Ten Handy Damage Control Tips

Fort Worth, TX, January, 2007 – Now, more than ever, “ordinary” taxpayers find themselves staring at their freshly prepared 1040 in disbelief. Why? They learn that somehow, they’ve just been inducted into the “alternative minimum tax (AMT) club.” “The AMT is separate tax system similar to the regular system, but chips away a variety of tax breaks,” explains Susan Shiflet, PPC Senior Tax Analyst from Thomson Tax & Accounting.

What drives AMT?

Essentially, taxpayers compute tax under each system, compare the two, and pay the higher tax. “Ironically, the new tax breaks, coupled with the fact that AMT thresholds haven’t kept pace with inflation, increase the chance that you’ll be faced with the add-on tax,” says Shiflet. “Even though long-term capital gains and qualified dividends have preferential rates for AMT, too much of a good thing can drive down the regular tax rate enough to edge into AMT territory. That means the AMT ‘club’ is no longer reserved for the affluent, and middle income taxpayers need help managing the unexpected dent in their cash.”

Shiflet offers the following tips that may reduce your AMT.

1. **File jointly.** Married taxpayers filing separately may experience AMT exemption phase-out, and increase their alternative minimum taxable income (AMTI).
2. **Make friends with your ex.** Personal exemptions are not allowed under AMT and can be wasted, but opportunities exist to shift the dependency exemption to someone who can use it. The child’s custodial parent can give a written release for the noncustodial parent to attach to their tax return and claim the exemption. Furthermore, under new law, the definition of a dependent has changed (but is expected to be “corrected” soon). It allows multiple adults living in the household to choose who will claim the qualifying child as a dependent. The exemption can be shifted to a family member not affected by AMT or phase-out, such as an older child or grandparent.
3. **Check your state tax refund.** If a state or local income tax refund was included in regular taxable income, it should be deducted in the AMT calculation.

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4. **Take a second look at home equity loans.** Such interest isn't deductible for AMT, except when it's used to help finance a legitimate business or investment interest expense.
5. **Capitalize interest and property taxes.** On investment property, capitalizing these items defers a deduction until you dispose of or depreciate the property, but it's better than permanently losing the deduction because of AMT.
6. **Capitalize IDC.** If you have oil and gas interests, electing to amortize intangible drilling costs is another way to shift AMT to regular tax. The bottom line tax due may not change, but the deduction has been preserved for future benefit.
7. **Conform depreciation to AMT rules.** You can elect to use AMT recovery periods for certain property which eliminates the adjustment, but the cost is recouped more slowly. (Note: There are similar alternatives for electing different cost recovery methods on other assets found in mining, construction, research and development, etc. that your tax professional will consider. Be sure to provide him or her with that information).
8. **Did you sell any ISO stock or depreciated property?** In most cases, the bargain element (the amount that the value exceeds the option price) in the year incentive stock options were exercised created an unfavorable AMT adjustment, whether you actually paid AMT or not. Likewise, accelerated depreciation can create AMT. These adjustments reverse in your favor when the stock or property is sold.
9. **Do you have tax exempt income subject to AMT?** AMT rules tax private activity bond interest and tax exempt dividends. The good news is that your AMT investment interest expense limitation is increased for these items so you may have a larger deduction for AMT purposes.
10. **Find a silver lining.** If you owe AMT, be sure to prepare Form 8801 to track AMT credit to be used in the future when regular tax exceeds AMT. Only timing items (not permanent differences) give rise to AMT credit, but the credit does have an unlimited shelf life.

Shiflet cautions that the AMT calculation can be quite complicated and requires fine-tuning. Adjustments to reduce AMT often have an effect on other tax items, so it is wise to do "before and after" comparisons. The IRS provides a free online "Alternative Minimum Tax (AMT) Assistant" at www.irs.gov, under "Online Tools."

You may be just realizing that you could have minimized your AMT hit with better strategic decisions before 2006 ended. Perhaps you could have deferred expenses to the next year or used a flexible spending account instead of counting on wasted credits or itemized deductions. Shiflet advises using the "Monday morning quarterbacking" to your advantage by planning around AMT *now*. While you're at it, red letter the first Saturday in November on your calendar as "AMT Prevention Day" to look back over the year and seize the opportunities before December 31, 2007 passes you by.

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