TOMASETTI, KULAS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Patty Coleman
Pyramid Real Estate Group
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Patty,

The biggest argument for establishing a Tax District is that the annual fees paid to the District by the unit owners will be deductible on the unit owners' tax return. However for a lot of unit owners this argument is not true because they are affected by the alternative minimum tax (AMT). The AMT comes into play for most people who have gross income over $100,000 coupled with large itemized tax deductions. These tax deductions are a combination of real estate taxes (this is where the District's fees are taken as a deduction), personal property taxes and state income taxes paid during the year. The AMT is calculated by taking a person's regular taxable income and adding back to it all the personal exemptions, all medical deductions, all tax deductions and other items to arrive at an alternative minimum taxable income which is then multiplied by a rate ranging between 26 to 28 percent. This amount is the AMT and it is compared to the person's regular tax and whichever amount is higher is the tax reported on their return.

Thus if a unit owner of a Tax District is affected by the AMT the deduction he/she thought they would get from paying the District's fees ***does not affect them.*** It is imperative for the unit owners to take a look at their income tax returns to see if they are paying the AMT tax (this amount appears on line 45 of their 2011 Form 1040). If they are affected by the AMT then they should not form a Tax District because the costs of forming and running the District far exceeds the benefits that only a few, if any, of the unit owners may be receiving by taking the fees as a deduction on their tax returns.

If you or anyone else has any questions on the above please do not hesitate to contact me.

Sincerely,

Peter

Peter Kulas, CPA

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