Automating Your AMT Calculations

What we're watching and what you should be considering now

In August 2022, Congress passed the Inflation Reduction Act (H.R. 5376 or "IRA"), with broad impacts on the energy industry. It introduced a federal Alternative Minimum Tax (AMT) for companies that meet qualifying criteria. Our industry is still seeking clarification on the criteria, computational requirements and implementation, and is working to assess impact of the legislation based on what's known now. Depreciation is certainly a major component, and the PowerPlan team has been compiling guidance on what you should consider right now.

What we know: Key requirements under the act

Recently, the IRS provided interim guidance on implementation which the PowerPlan team is analyzing together with our customers and partners to suggest best-practice approaches. The following are some representative criteria that we're monitoring from our previous assessments:

- ✔ **Book depreciation addback** – Excluding tax repairs, cost of removal, and salvage from requirement to add back Section 168-related book depreciation to adjusted financial statement income (AFSI); including book depreciation related to method/life.
- ✔ **Tax depreciation** – Including all tax depreciation as a qualified deduction.
- ✔ **AMT implementation for assets created prior to 2023 and differences in timing for book and tax purposes** – We had previously assessed different approaches for incorporating historical depreciation on assets into the AMT depreciation allowance. As a result of the latest guidance issued by the IRS in Notice 2023-7, we now expect depreciation adjustments to AFSI to be only on current-year accruals. This means:
    - Only current year book and tax reserve will be included in AFSI
    - No special adjustments to account for previously-accrued tax depreciation on assets

Benefits to automating your AMT calculations

Managing AMT manually is risky and time consuming. Many necessary data points should already exist in your income tax accounting software; automating lets you efficiently leverage them to get at the calculations you need. It also improves auditability. For PPE, integration may also allow you to automate depreciation allowance impacts to your AMT liability and tax credit carryforward calculations. **This ensures consistency and automates journal entries into your GL.** However, much depends on your circumstances. Factors like these need close monitoring by your team:

- ✔ Three-year average AFSI assessment
- ✔ Financial statement NOL (net operating loss)
- ✔ Companies not tracked in platforms like PowerPlan
- ✔ Tax credit utilization nuances
- ✔ Allocation of AMT credit C/F and tax sharing implication

What your software should do for you

Your technology should serve as a full subledger, leveraging existing data from journal entries affecting financial disclosures and tax requirements. It should also be easy to report on AFSI and year-over-year results. **Above all, it should capture granular data that lets you dynamically respond to evolving requirements.**

Want to be sure you're ready for AMT?

We encourage you to consult with your tax and other advisors to determine what's best for your business. We also welcome a chance to share how PowerPlan solutions – such as Provision, PowerTax and Tax Fixed Assets ("TFA"), our newest deferred tax and tax depreciation SaaS solution – can help you handle AMT. Contact us at info@powerplan.com to learn more.

About the authors

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Sebastian directly supports clients of the PowerPlan tax modules. He has extensive experience working with regulated entities across a variety of asset-intensive industries, including partnerships. His experience with Tax Provision and Power Tax spans user training, merger and platform conversions, upgrades, tax reform systemization, integration configuration, and processing of depreciation and deferred tax. Sebastian plays a key role in monitoring industry and legislative trends and provides thought leadership and strategic insight to both PowerPlan colleagues and clients. He graduated with honors from the University of Virginia with a major in economics.

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