



What's New That Affects You?

A Snapshot of Tax Law for Your Return

As is typical for an election year, no big tax changes that will affect 2016 tax returns came out of Washington. However, there has been much talk about tax reform and tax proposals for the upcoming year. It remains to be seen how the tax climate will change. But, for now, it is important to focus on the tax laws in place. Your CPA can help you determine strategies and steps to minimize your tax liability and enhance your financial position.

DID YOU KNOW?

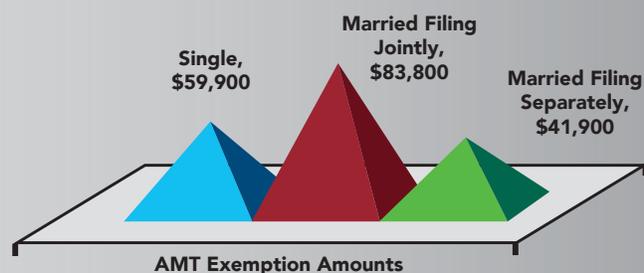
- ▶ The IRS **never** calls about outstanding tax due. Be alert for tax scams!
- ▶ Due dates for some tax forms have changed, including the foreign bank account reporting form, which is now due April 15 and can be extended until Oct. 15.
- ▶ Some tax provisions, such as the deduction for mortgage insurance premiums, will expire at the end of 2016 unless Congress acts.

Talk to your CPA about these and other important issues.

ALTERNATIVE MINIMUM TAX (AMT)

When the AMT is triggered, the taxpayer must add back certain non-taxable income, loses certain exemptions and deductions, and must recalculate their tax at an established flat rate. They will pay the higher of the two amounts.

If you paid AMT last year but do not owe it now, you may be eligible for a credit.



CHANGES AFFECTING HIGHER-INCOME TAXPAYERS



Single Filer

- ▶ Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of \$200,000
- ▶ Pays additional 3.8% net investment income tax on certain income (e.g., capital gains, interest and dividend income) if modified adjusted gross income (MAGI) exceeds \$200,000
- ▶ Sees itemized deductions and personal exemptions limited or completely phased out if AGI exceeds \$259,400

Married Filing Separately

- ▶ Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of \$125,000
- ▶ Pays additional 3.8% net investment income tax on certain income if MAGI exceeds \$125,000
- ▶ Sees itemized deductions and personal and dependency exemptions limited or completely phased out if AGI exceeds \$155,650



Married Filing Jointly

- ▶ Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of \$250,000
- ▶ Pays additional 3.8% net investment income tax on certain income if MAGI exceeds \$250,000
- ▶ Sees itemized deductions and personal and dependency exemptions limited or completely phased out if AGI exceeds \$311,300

Head of Household

- ▶ Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of \$200,000
- ▶ Pays additional 3.8% net investment income tax on certain income if MAGI exceeds \$200,000
- ▶ Sees itemized deductions and personal and dependency exemptions limited or completely phased out if AGI exceeds \$285,350



Important to check: For the 0.9% additional Medicare surtax, withholding is required only on wages above \$200,000. If a couple's combined income exceeds \$250,000, no Medicare surtax withholding may have taken place if each spouse earned below \$200,000. This may result in an under withholding (and possible penalties). Ask your CPA whether you should pay estimates.

WHAT IS NIIT?

The Net Investment Income Tax (NIIT) is a 3.8% tax on a broad range of income sources, such as interest; dividends; capital gains; rental and royalty income; non-qualified annuities; and passive business revenue. It affects individuals, estate and trusts above certain income levels.

FEDERAL TAX RATES

Income Tax

Most rates stayed the same — highest-income taxpayers [\$415,050 (single) to \$466,950 (joint filers)] pay 39.6%. The amount of estate income excluded from federal estate tax rose to \$5.45 million.

Capital Gains Tax

- 10% or 15% tax bracket: No tax
- 25%, 28%, 33% or 35% brackets: 15%
- 39.6% tax bracket: 20%

Estate Tax: 40%

TAX BENEFITS AND OBLIGATIONS

While a few tax benefits are still temporary, most are permanent, except for the tuition and fees deduction, which expires this year. They are also subject to income limits. For example, the student loan interest deduction stops being available once a taxpayer filing as single reports \$80,000 MAGI.

Child and Dependent Care Costs

- ▶ Child Tax Credit — Provides up to \$1,000 per child under 17 (including, but not limited to, son, daughter, stepchild and foster child).
- ▶ Child and Dependent Care Tax Credit — Provides 20–35% for paid care for children under 13, or a spouse or other dependent, who is incapable of self-care.



WHEN DO YOU HAVE TO PAY A GIFT TAX?

People are sometimes surprised to learn that the IRS regulates gifts over a certain size.

As a donor, you are responsible for reporting the gift if it exceeds \$14,000 and paying the gift tax if you have given more than \$5.45 million in cash or property (over a lifetime). Regardless of the amount, you cannot deduct a gift as you could with a charitable donation.

As a recipient, you do not need to include the gift as part of your taxable income. However, if you receive property other than cash, you will need to determine the cost basis at the time of the transfer to have the proper value in case you dispose of it later.

▶ Taxable gifts generally do not include gifts:

- Given to a spouse
- Provided to a political organization
- Below the annual exclusion (\$14,000 per recipient for 2016)
- Consisting of tuition or medical expenses you pay for someone else directly to the organization

Donors, see your CPA for more information about the specific rules related to filing a gift tax return, particularly if your gift exceeds the annual exclusion or if the transfer is complex.



HEALTH CARE AND TAXES — KEY FACTS FOR INDIVIDUALS AND FAMILIES

Under the Patient Protection and Affordable Care Act (ACA):

- ▶ If you did not have qualifying coverage for yourself or any dependents for any portion of 2016, and do not qualify for an exemption, you will be subject to a penalty when you file your federal income tax return in 2017 (\$695 per uninsured adult or 2.5% of household income).
- ▶ Individuals who are within certain income limits qualify for a premium tax credit if they purchase insurance through approved market exchanges.
- ▶ Taxpayers under 65 years old can deduct only unreimbursed medical/dental expenses that exceed 10% of adjusted gross income (7.5% through 2016 for those age 65 or older).

DON'T FORGET FSAs!

One way to reduce your taxable income is to make pre-tax contributions to a flexible spending account to pay out-of-pocket medical expenses. You may be surprised to learn the costs that FSAs may cover, such as taxi fare for a medical appointment.



LOOKING FORWARD: WHAT CAN YOU DO TO MINIMIZE TAXES?

It's never too early to start planning ways to save on taxes next year. For example, you can:

- ▶ Maximize your retirement plan contributions to minimize income (\$18,000 is the limit for 401(k)s if you are under age 50, \$24,000 if over).
- ▶ Take full advantage of employer-sponsored programs that allow you to set aside pre-tax dollars for transit or medical expenses.
- ▶ Ask your CPA whether you will likely be subject to the AMT and how to minimize the impact.
- ▶ Shift to investments that are not subject to the 3.8% net investment income tax (e.g., exempt bonds).
- ▶ Offset any capital gains by harvesting losses in your taxable brokerage account.

Your CPA can advise you more on these and other strategies.



SELF-EMPLOYED OR OWN A BUSINESS?

Year-end planning for your business is more important than ever since change is likely. Be sure that your books and records are in good order so you and your CPA can review planning opportunities.

Changes to Tax Breaks

Bonus Depreciation — Businesses have historically been able to deduct 50% of the adjusted basis of qualifying property in the first year the asset is placed into service, with any remaining basis subject to regular depreciation rules. Now businesses can plan to use it through 2019. However, the percent that can be deducted declines in 2018.

Section 179 — Small businesses can immediately write off up to \$500,000 of tangible business property (computers, office furniture, etc.) placed in service during the tax year. Both the \$500,000 expensing limit and the \$2 million phase-out are indexed to inflation and expanded to include qualified real property. Also, businesses can now expense air conditioning and heating units placed in service after 2015.

Self-Employed (SE) Income Tax Rates

- ▶ 12.4% Social Security tax on income up to \$118,500
- ▶ 2.9% Medicare tax — all SE income
- ▶ 0.9% additional Medicare tax on earnings over \$200,000 (single)

Affordable Care Act

New rules for reporting health insurance coverage to the IRS are in effect and penalties for failing to do so can be steep. Information returns for tax year 2016 are due May 31; June 30 if filed electronically.

The Small Business Health Care Tax Credit, which is 50% for small employers and 35% for small tax-exempt employers may help offset costs but is subject to several restrictions. It can be claimed only:

- ▶ If the employer has fewer than 25 full-time equivalent employees
- ▶ If the employer pays more than 50% of employees' premium costs.
- ▶ For two consecutive years.

Remember, employers can no longer use health reimbursement arrangements (HRAs) except for certain benefits such as dental and vision care.



Information current as of November 2016.

