

Income Tax Changes 2016 - 2017

Happy New Year! We wish you have a very successful and prosperous 2017. As per our policy of "Go Green and Save Earth", this year also we are sending the newsletter and tax organizers via email. The file is a password protected PDF. The password to open the file is Last 4 digits of your social security number and 5-digit zip code. As an example, if you have SSN 123-45-6789 with an address in zip code 98765 the resulting password is 678998765. Please do let us know if you prefer them on paper and we will continue to mail them. Now on you can upload your tax documents and schedule meetings on our website at your convenience.

Federal Income Tax Filing Deadline

The filing deadline for the year 2016 is Tuesday April 18, 2017.

Income Tax Rates

The American Taxpayer Relief Act of 2012, or ATRA, added a seventh federal income tax bracket (39.6%) in 2013, while the remaining six rates were unchanged. In 2016, taxable incomes above the following thresholds now fall into the 39.6% bracket: Married Filing Separately (\$233,475), Unmarried Individuals (\$415,050), Head of Household (\$441,000), and Married Filing Joint Returns (\$466,950).

Capital Gains Tax

ATRA also made several important changes to the treatment of capital gains, and eliminated sunset provisions, adding stability and permanence to these rules:

- **Income Thresholds:** individuals in the 10% and 15% tax brackets will pay 0% on eligible dividends and most capital gains.
- **Qualified Dividends:** income received will be taxed at the same rate as long-term capital gains.
- **Tax Rate:** individuals in the 25%, 33%, and 35% federal income tax brackets will pay 15% on capital gains, while taxpayers in the 39.6% bracket will pay 20%.

Unmarried individuals (Single) with income over \$200,000 and Married couples filing jointly with income over \$250,000 will also pay a 3.8% Medicare surcharge tax on investment income; thereby increasing the effective rate on capital gains to 23.8% (20% + 3.8%).

Social Security and Medicare

As was the case in the past, all wages earned in a given year are taxed at the 1.45% rate for Medicare. In 2016, wages paid in excess of \$200,000 for Unmarried filers and in excess of \$250,000 for Married filers will be subject to an extra 0.9% tax.

Social Security tax remains at 6.20%, while the wage limit, or Social Security maximum, also remains at \$118,500.

Unified Credits, Gift Tax and Estate Tax

ATRA also increased the estate and gift tax rate from 35 to 40%. The gift tax and estate tax exclusion continue to be indexed for inflation and remain at \$14,000 (the same as 2015 and 2014) and increase to \$5.45 million respectively in 2016.

Standard Deductions

According to the IRS, approximately two out of every three taxpayers claim the standard deduction on their income tax returns. In 2016, there was virtually no change to the standard deductions from their 2015 levels, including:

- **Single (Unmarried Individuals):** \$6,300 (no change)
- **Married Filing Separately:** \$6,300 (no change)
- **Head of Household:** \$9,300 (an increase of \$50)
- **Married Taxpayers Filing Jointly and Qualifying Widow(er)s:** \$12,600 (no change)

Exemption Values

The amount deducted for each exemption claimed on a federal income tax return in 2016 is \$4,050, which is an increase of \$50 from the 2015 amount.

Foreign Earned Income Exclusion

The 2017 Foreign Earned Income Exclusion has increased to \$102,100, up from \$101,300 for tax year 2016. This means that a husband and wife can make up to \$204,200 of earned income using the 2017 Foreign Earned Income Exclusion and pay zero Federal income tax.

Alternative Minimum Tax (AMT) Exemptions

The 2016 exemption amounts are:

Single taxpayers:	\$53,900
Married taxpayers filing jointly:	\$83,800
Married filing separately:	\$41,900
Head of Household:	\$53,900

Mileage Deduction Rates

The Business Standard Mileage rates increased for 2017 to 54.05 cents-per-mile from 54 for 2016.

Contributions to Retirement Accounts

The contribution limits for 401(k) as well as 403(b) plans remains unchanged at \$18,000 in 2016. Catch up contributions also remain at \$6,000. The contribution limit for SIMPLE retirement plans remains at \$12,500, as does the catch-up contribution limit of \$2,500.

In 2016, the contribution limits for Traditional IRAs and Roth IRAs is \$5,500, with a catch-up contribution of \$1,000 for anyone age 50 or older by the end of the calendar year. The income limits for individuals willing to fund Traditional IRAs as well as Roth IRA plans increased modestly again in 2016. The income phase-out threshold for Roth IRAs now starts at \$184,000 for those filing joint returns, which is an increase of \$1,000. The phase-out threshold for taxpayers filing their returns as Head of Household or Single is now \$117,000, which is a \$1,000 increase over last year's value.

The income phase-out limits that apply to Traditional IRAs remain the same for those individuals covered by a retirement plan at work.

Coming in tax year 2017: Changes in business and FBAR return due dates and extensions:

Below is a list of the new federal due dates generally applicable for 2016 tax returns (2017 filing season) and beyond.²

March 15 (Extensions Until Sept. 15)

- Form 1065, *U.S. Return of Partnership Income*; and
- Form 1120S, *U.S. Income Tax Return for an S Corporation*.

Note: This is the due date for the tax return and also for the Schedules K-1 that the entity must provide to its owners.

April 15 (Extensions Until Oct. 15, Unless Noted Below)

- Form 1040, *U.S. Individual Income Tax Return*;
- Form 1041, *U.S. Income Tax Return for Estates and Trusts* (extensions until Sept. 30);
- Form 1120, *U.S. Corporation Income Tax Return* (extensions until Sept. 15); and
- FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR).

So far there have been many important tax developments. This letter highlights some of them for you. As always, give our office a call or email if you have any questions.