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Income Tax Changes 2017 Tax Year

Federal Income Tax Filing Deadline

The filing deadline for the year 2017 is Tuesday April 17, 2018.

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 2017, taxable incomes above the following thresholds now fall into the 39.6% bracket: Married Filing Separately (\$235,350), Unmarried Individuals (\$418,400), Head of Household (\$444,550), and Married Filing Joint Returns (\$470,700).

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 2017, 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, increase to \$127,200.

Unified Credits, Gift Tax and Estate Tax

The lifetime exclusion amount against the estate tax for 2017 is \$5.49 million, up \$40,000 from 2016. That is the maximum size of taxable estate that can escape tax for those who die in 2017.

Because the lifetime exclusion amount actually appears in the tax laws as a unified credit, it makes all the tax rates above irrelevant. For 2017, the unified estate tax credit will be \$2,141,800, which matches what the estate tax would be on a taxable estate of \$5.49 million in the table above.

The effect of the unified credit is to impose tax at a 40% rate on all taxable estates. For instance, if someone dies in 2017 with a \$5.59 million estate, \$100,000 would be taxable. The estate tax due would be \$40,000, not \$23,800 as the table above would suggest. Put another way, the credit doesn't actually reduce the size of the taxable estate. It only reduces the tax due on that estate.

Standard Deductions

According to the IRS, the **standard deduction** for single taxpayers and married couples filing separately is \$6,350 in 2017, up from \$6,300 in 2016; for married couples filing jointly, the standard deduction is \$12,700, up \$100 from the prior year; and for heads of households, the standard deduction is \$9,350 for 2017, up from \$9,300.

Exemption Values

The **personal exemption amount** for 2017 is \$4,050, the same as 2016. However, the exemption is subject to a phase-out that begins with adjusted gross incomes of \$261,500 (\$313,800 for married couples filing jointly). It phases out completely at \$384,000 (\$436,300 for married couples filing jointly).

Foreign Earned Income Exclusion

For tax year 2017, the foreign earned income exclusion is \$102,100, up from \$101,300 for tax year 2016.

Alternative Minimum Tax (AMT) Exemptions

The 2017 exemption amounts are:

Single taxpayers:	\$54,300
Married taxpayers filing jointly:	\$84,500
Married filing separately:	\$42,250
Head of Household:	\$ 54,300

Mileage Deduction Rates

The Business Standard Mileage rates decreased for 2017 to 53.5 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 2017. Catch up contributions also remain at \$6,000 for those 50 and older. The contribution limit for SIMPLE retirement plans remains at \$12,500,

In 2017, 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 2017. The income phase-out threshold for Roth IRAs now starts at \$186,000 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 \$118,000, 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.

FBAR return due dates and extensions:

Below is a list of the new federal due dates generally applicable for 2017 tax returns (2018 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 for the Schedules K-1 that the entity must provide to its owners.

April 17 (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.