

TAX UPDATE FOR 2016

The following are tax updates that can have an impact your 2016 tax return. Overall 2016 was relatively quiet for new tax legislations. Most items listed below are related to legislation that passed prior to 2016 that have effects on future years. You can also find tax tables for your reference for items adjusted for inflation.

Identity Theft

Due to the rise of tax identity fraud, some states are requiring State Issued ID to be submitted with your state return when electronically filing. Currently Arizona does not require this; however, taxpayers may voluntarily provide this information on their return.

Health Insurance Penalty Increasing

The “shared responsibility payment” increased in 2016. The penalty if you did not have health insurance and do not qualify for an exemption is \$695 or 2.5% of your income in 2016 whichever is greater. This penalty increases to \$695 or 5.0% of your income in 2017.

For more information please check www.healthcare.gov

Protecting Americans from Tax Hikes (PATH) Act of 2015

On December 18, President Obama signed into law the 231-page “Protecting Americans from Tax Hikes” (PATH) Act of 2015. The PATH Act extends a number of important tax breaks and makes many of them permanent. Below are highlights of key individual, business and miscellaneous provisions affected by this legislation.

Individual Tax Provisions

- The state and local sales taxes itemized deduction is now a permanent optional deduction. Taxpayers may elect to deduct state and local sales taxes in lieu of deducting state and local income taxes.
- The enhanced American Opportunity Tax Credit (AOTC) with maximum deduction of \$2,500 and phaseout thresholds of \$80,000 for single filers and \$160,000 for joint filers is now permanent. It was scheduled to expire after 2017.
- The enhanced child tax credit is permanent.
- The provisions now permanently allow for tax-free charitable rollover distributions from IRAs by individuals age 70½ or older. The annual limit is \$100,000 per taxpayer.
- The monthly tax-free employee transportation benefit of \$250 for mass transit passes, vanpooling and parking fees is permanently equalized and will be indexed for inflation for 2016 and thereafter.

- The \$250 above-the-line deduction for qualified out-of-pocket expenses of teachers and other educators is now permanent. It will be indexed for inflation for 2016 and thereafter.
- The tuition-and-fees deduction is extended through 2016. Parents may claim a tuition-and-fees deduction in lieu of one of the two higher education credits, subject to phaseouts based on modified adjusted gross income (MAGI).
- The tax exclusion for mortgage forgiveness of up to \$2 million of debt on a principal residence is extended through 2016 with certain modifications.
- The provision allowing taxpayers to deduct mortgage insurance premiums subject to a phaseout beginning at \$100,000 of AGI is extended through 2016.
- The latest version of the residential energy credit is extended through 2016. This provides a lifetime credit of up to \$500 for 10% of qualified expenses.

Business Tax Provisions

- The maximum Section 179 expensing deduction of \$500,000 for qualified business property with a phaseout threshold of \$2 million is permanently restored. It will be indexed for inflation for 2016 and thereafter.
- 50% bonus depreciation for qualified business property is extended through 2019. It will be reduced to 40% for 2018 and then 30% for 2019. Unless extended again, bonus depreciation will expire after 2019.
- The provision that allows taxpayers to use a straight-line 15-year cost recovery period for qualified leasehold, restaurant and retail is permanently extended. The usual cost recovery period is 39 years.
- The research and development credit is now permanent with certain modification. The alternative simplified credit is increased from 14% to 20%. Small businesses may be able to offset alternative minimum tax (AMT) liability, and start-ups can offset payroll taxes, beginning in 2016.
- The five-year recognition period for built-in-gains following a conversion to S corporation status is now permanent. The PATH act also permanently extends the basis adjustment in stock when an S Corporation makes charitable donations of property.
- The exclusion of 100% of gain on qualified small business stock is retroactively extended and made permanent. This tax break requires a five-year holding period.
- The Work Opportunity Tax Credit available for hiring workers from targeted economic groups and military veterans is extended through 2019, with minor modifications.
- The New Markets Tax Credit is extended until 2019.

Miscellaneous Tax Provisions

- The portion of the Affordable Care Act (ACA) that imposes the Cadillac tax on high-priced health insurance plans is delayed for two years, from 2018 to 2020. The ACA tax on medical devices is suspended for two years, and the health insurance provider fee for one year.
- The rule allowing computers and related equipment to be treated as qualified expenses for tax-free distributions under Section 529 college savings plans is permanently extended.
- If certain requirements are met, the PATH Act permits tax-free rollovers from a 529 plan to an Achieving a Better Life Experience (ABLE) account.
- The PATH Act generally permits tax-free rollovers from an employer sponsored qualified plan to a Savings Incentive Match Plan for Employees (SIMPLE) plan.
- The Taxpayer Bill of Rights is now a permanent part of the tax code.

TAX PROVISIONS THAT CONTINUE INTO 2016

- **IRA Rollover Restrictions**

There is a limit to withdrawing money from an IRA and transferring it to another IRA within 60 days. As of 2016, tax payers can only do that once from an IRA in a 12-month period. IRA Rollovers using "trustee-to-trustee" transfers are still unlimited.

- **Health Flexible Spending Accounts (FSAs)**

You can roll over \$500 from an FSA into the next plan year., You will be ineligible to participate in a Health Savings Account (HSA) for the year into which they rolled over an amount from a general purpose FSA.

- **Foster Care Payments for Relatives**

You can exclude payments from your income for foster care of relatives. To qualify, the state or certified Medicaid provider paid you to provide non-skilled medical support services and care for a relative who has physical, mental or emotional issues living in your home. Previously, a relative could not be considered a foster child, and the income could not be excluded.

- **Pell Grants**

Pell Grants can now be allocated as living expenses. This may allow you to include tuition as an education expense to claim an educational credit.

2016 CONTINUES WITH THE FOLLOWING TAX INCREASES STARTED IN 2013

- 3.8 percent Medicare surtax on the lesser of net investment income or modified adjusted gross income above \$200,000 for individuals and \$250,000 for joint filers.
- Additional Medicare payroll tax of 0.9 percent on earned income above \$200,000 for individuals and \$250,000 for joint filers.
- Tax on long-term capital gains is increased from 15 to 20 percent for individuals with taxable income greater than \$400,000 and joint filers with taxable income over \$450,000
- The threshold for unreimbursed medical expenses increased from 7.5 percent to 10 percent of Adjusted Gross Income (AGI) for most taxpayers. There is a temporary exemption from Jan. 1, 2013 to Dec. 31, 2016 for individuals age 65 and older and their spouses.
- Personal exemption phaseout - for every \$2,500 of AGI above these income limits, the \$4,050 (2016) per-person personal exemption will be reduced by 2%. Personal exemption will be fully phased out for individuals with AGI greater than \$381,900 and joint filers with AGI greater than \$433,800.
- Itemized deduction phaseout - reduces itemized deductions by 3% of the AGI above the limits (for 2016, that threshold is \$311,300 for married couples filing jointly and \$259,400 for single filers) to a maximum reduction of 80%.

Tax Tables for Reference

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	\$0 to \$9,275	\$0 to \$18,550	\$0 to \$13,250
15%	\$9,275 to \$37,650	\$18,551 to 75,300	\$13,251 to \$50,400
25%	\$37,651 to \$91,150	\$75,301 to 151,900	\$50,401 to \$130,150
28%	\$91,151 to \$190,150	\$151,901 to 231,450	\$130,151 to 210,800
33%	\$190,151 to \$413,350	\$231,451 to 413,350	\$210,801 to 413,350
35%	\$413,351 to \$415,050	\$413,351 to 466,950	\$413,351 to 441,000
39.6%	\$415,051+	\$466,950+	\$441,000+

Table 2. 2016 Standard Deduction and Personal Exemption

Filing Status	Deduction Amount	
Single	\$	6,300.00
Married Filing Jointly	\$	12,600.00
Head of Household	\$	9300.00
Personal Exemption	\$	4,050.00

Table 3. 2016 Earned Income Tax Credit Parameters

Filing Status		No Children	One Child	Two Children	Three or More Children
Single or Head of Household	Income at Max Credit	\$6,610	\$9,920	\$13,930	\$13,930
	Maximum Credit	\$506	\$3,373	\$5,572	\$6,269
	Phaseout Begins	\$8,270	\$18,190	\$18,190	\$18,190
	Phaseout Ends (Credit Equals Zero)	\$14,880	\$39,296	\$44,648	\$47,955
Married Filing Jointly	Income at Max Credit	\$6,610	\$9,920	\$13,930	\$13,930
	Maximum Credit	\$506	\$3,373	\$5,572	\$6,269
	Phaseout Begins	\$13,820	\$23,740	\$23,740	\$23,740
	Phaseout Ends (Credit Equals Zero)	\$20,430	\$44,846	\$50,198	\$53,505