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YEAR END TAX PLANNING LETTER FOR 2016

Many of the tax changes affecting individuals and businesses for 2016 were related to the Protecting Americans from Tax Hikes Act of 2015 (PATH) that modified or made permanent numerous tax breaks (the so-called "tax extenders"). To further complicate matters, some provisions were only extended through 2016 and are set to expire at the end of this year while others were extended through 2019. With that in mind, here's what individuals and families need to know about tax provisions for 2016.

Personal Exemptions

The personal and dependent exemption for tax year 2016 is \$4,050.

Standard Deductions

The standard deduction for married couples filing a joint return in 2016 is \$12,600. For singles and married individuals filing separately, it is \$6,300, and for heads of household the deduction is \$9,300.

The additional standard deduction for blind people and senior citizens in 2016 is \$1,250 for married individuals and \$1,550 for singles and heads of household.

Income Tax Rates

In 2016 the top tax rate of 39.6 percent affects individuals whose income exceeds \$415,051 (\$466,951 for married taxpayers filing a joint return). Marginal tax rates for 2016--10, 15, 25, 28, 33 and 35 percent--remain the same as in prior years.

Due to inflation, tax-bracket thresholds increased for every filing status. For example, the taxable-income threshold separating the 15 percent bracket from the 25 percent bracket is \$75,300 for a married couple filing a joint return.

Estate and Gift Taxes

In 2016 there is an exemption of \$5.45 million per individual for estate, gift and generation-skipping taxes, with a top tax rate of 40 percent. The annual exclusion for gifts is \$14,000.

Alternative Minimum Tax (AMT)

AMT exemption amounts were made permanent and indexed for inflation retroactive to 2012. In addition, non-refundable personal credits can now be used against the AMT.

For 2016, exemption amounts are \$53,900 for single and head of household filers, \$83,800 for married people filing jointly and for qualifying widows or widowers, and \$41,900 for married people filing separately.

Marriage Penalty Relief

The basic standard deduction for a married couple filing jointly in 2016 is \$12,600.

Pease and PEP (Personal Exemption Phaseout)

Pease (limitations on itemized deductions) and PEP (personal exemption phase-out) limitations were made permanent by ATRA (indexed for inflation) and affect taxpayers with income at or above \$259,400 for single filers and \$311,300 for married filing jointly in tax year 2016.

Flexible Spending Accounts (FSA)

Flexible Spending Accounts (FSAs) are limited to \$2,550 per year in 2016 (same as 2015) and apply only to salary reduction contributions under a health FSA. The term "taxable year" as it applies to FSAs refers to the plan year of the cafeteria plan, which is typically the period during which salary reduction elections are made.

Specifically, in the case of a plan providing a grace period (which may be up to two months and 15 days), unused salary reduction contributions to the health FSA for plan years beginning in 2012 or later that are carried over into the grace period for that plan year will not count against the \$2,550 limit for the subsequent plan year.

Further, employers may allow people to carry over into the next calendar year up to \$500 in their accounts, but aren't required to do so.

Long Term Capital Gains

In 2016 taxpayers in the lower tax brackets (10 and 15 percent) pay zero percent on long-term capital gains. For taxpayers in the middle four tax brackets the rate is 15 percent and for taxpayers whose income is at or above \$415,050 (\$466,950 married filing jointly), the rate for both capital gains and dividends is capped at 20 percent.

INDIVIDUALS - TAX CREDITS

Adoption Credit

In 2016 a nonrefundable (i.e. only those with a lax liability will benefit) credit of up to \$13,460 is available for qualified adoption expenses for each eligible child.

Child and Dependent Care Credit

The child and dependent care tax credit was permanently extended for taxable years starting in 2013. If you pay someone to take care of your dependent (defined as being under the age of 13 at the end of the tax year or incapable of self-care) in order to work or look for work, you may qualify for a credit of up to \$1,050 or 35 percent of \$3,000 of eligible expenses.

For two or more qualifying dependents, you can claim up to 35 percent of \$6,000 (or \$2,100) of eligible expenses. For higher income earners the credit percentage is reduced, but not below 20 percent, regardless of the amount of adjusted gross income.

Child Tax Credit

For tax year 2016, the child tax credit is \$1,000. A portion of the credit may be refundable, which means that you can claim the amount you are owed, even if you have no tax liability for the year. The credit is phased out for those with higher incomes.

Earned Income Tax Credit (EITC)

For tax year 2016, the maximum earned income tax credit (EITC) for low and moderate income workers and working families increased to \$6,269 (up from \$6,242 in 2015). The maximum income limit for the EITC increased to \$53,505 (up from \$53,267 in 2015) for married filing jointly. The credit varies by family size, filing status, and other factors, with the maximum credit going to joint filers with three or more qualifying children.

INDIVIDUALS - EDUCATION EXPENSES

Coverdell Education Savings Account

You can contribute up to \$2,000 a year to Coverdell savings accounts in 2016. These accounts can be used to offset the cost of elementary and secondary education, as well as post-secondary education.

American Opportunity Tax Credit

For 2016, the maximum American Opportunity Tax Credit that can be used to offset certain higher education expenses is \$2,500 per student, although it is phased out beginning at \$160,000 adjusted gross income for joint filers and \$80,000 for other filers.

Employer-Provided Educational Assistance

In 2016, as an employee, you can exclude up to \$5,250 of qualifying post-secondary and graduate education expenses that are reimbursed by your employer.

Lifetime Learning Credit

A credit of up to \$2,000 is available for an unlimited number of years for certain costs of post-secondary or graduate courses or courses to acquire or improve your job skills. For 2016, the

modified adjusted gross income threshold at which the lifetime learning credit begins to phase out is \$108,000 for joint filers and \$54,000 for singles and heads of household.

Student Loan Interest

In 2016 you can deduct up to \$2,500 in student-loan interest as long as your modified adjusted gross income is less than \$65,000 (single) or \$130,000 (married filing jointly). The deduction is phased out at higher income levels. In addition, the deduction is claimed as an adjustment to income so you do not need to itemize your deductions.

INDIVIDUALS - RETIREMENT

Contribution Limits

For 2016, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is \$18,000 (same as 2015). For persons age 50 or older in 2016, the limit is \$24,000 (\$6,000 catch-up contribution). Contribution limits for SIMPLE plans remain at \$12,500 (same as 2015) for persons under age 50 and \$15,500 for anyone age 50 or older in 2016. The maximum compensation used to determine contributions increased to \$265,000.

Saver's Credit

In 2016, the adjusted gross income limit for the saver's credit (also known as the retirement savings contributions credit) for low-and-moderate-income workers is \$61,500 for married couples filing jointly, \$46,125 for heads of household, and \$30,750 for married individuals filing separately and for singles.

Please call if you need help understanding which deductions and tax credits you are entitled to.

2016 RECAP: TAX PROVISIONS FOR BUSINESSES

Whether you file as a corporation or sole proprietor here's what business owners need to know about tax changes for 2016.

Standard Mileage Rates

The standard mileage rates in 2016 are as follows: 54 cents per business mile driven, 19 cents per mile driven for medical or moving purposes, and 14 cents per mile driven in service of charitable organizations.

Health Care Tax Credit for Small Businesses

Small business employers who pay at least half the premiums for single health insurance coverage for their employees may be eligible for the Small Business Health Care Tax Credit as long as

they employ fewer than the equivalent of 25 full-time workers and average annual wages do not exceed \$52,000 (adjusted annually for inflation) in 2016.

In 2016 (as in 2015 and 2014), the tax credit is worth up to 50 percent of your contribution toward employees' premium costs (up to 35 percent for tax-exempt employers). For tax years 2010 through 2013, the maximum credit was 35 percent for small business employers and 25 percent for small tax-exempt employers such as charities.

Section 179 Expensing and Depreciation

The Section 179 expense deduction was made permanent at \$500,000 by the Protecting Americans from Tax Hikes Act of 2015 (PATH). For equipment purchases, the maximum deduction is \$500,000 of the first \$2.01 million of qualifying equipment placed in service during the current tax year. The deduction is phased out dollar for dollar on amounts exceeding the \$2 million threshold amount (indexed for inflation) and eliminated above amounts exceeding \$2.5 million. In addition, Section 179 is now indexed to inflation in increments of \$10,000 for future tax years.

The 50 percent bonus depreciation has been extended through 2019. Businesses are able to depreciate 50 percent of the cost of equipment acquired and placed in service during 2015, 2016 and 2017. However, the bonus depreciation is reduced to 40 percent in 2018 and 30 percent in 2019. The standard business depreciation amount is 24 cents per mile.

Please call if you have any questions about Section 179 expensing and the bonus depreciation.

Work Opportunity Tax Credit (WOTC)

Extended through 2019, the Work Opportunity Tax Credit has been modified and enhanced for employers who hire long-term unemployed individuals (unemployed for 27 weeks or more) and is generally equal to 40 percent of the first \$6,000 of wages paid to a new hire. Please call if you have any questions about the Work Opportunity Tax Credit.

SIMPLE IRA Plan Contributions

Contribution limits for SIMPLE IRA plans increased to \$12,500 for persons under age 50 and \$15,500 for persons age 50 or older in 2016. The maximum compensation used to determine contributions increases to \$265,000.

Please contact the office if you need help understanding which deductions and tax credits you are entitled to.