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January 30, 2017

Taxes: What's New for 2017?

Key Points

- Tax changes in recent years included an additional Medicare surtax for high-income earners, a new top rate for dividends and long-term capital gains, and the phase-out of itemized deductions for high earners.
- If you're subject to higher taxes, it's even more important to take advantage of whatever tax breaks apply to you.
- Learn more about this year's inflation adjustments and common tax breaks, including retirement plan contributions and charitable giving.

Although there are no major tax law changes this year, there are still inflation adjustments and other routine changes to consider. Remember, it's important to take advantage of the tax break you're entitled to—it's not what you make but what you keep that counts. Here are a number of items to consider as you plan for the year ahead.

Take advantage of federal income tax changes

To keep pace with inflation, the IRS has widened the federal income tax brackets and increased certain exemptions, deductions and credits[1] (see table below). For additional information, please visit the IRS website.

2016 Federal Income Tax Brackets

SINGLE		MARRIED, FILING JOINTLY		HEAD OF HOUSEHOLD	
INCOME RANGE	TAX	INCOME RANGE	TAX	INCOME RANGE	TAX
$0 - $9,275	**10%**	$0 - $18,550	**10%**	$0 - $13,250	**10%**
$9,276 - $37,650	**15%**	$18,551 - $75,300	**15%**	$13,251 - $50,400	**15%**
$37,651 - $91,150	**25%**	$75,301 - $151,900	**25%**	$50,401 - $130,150	**25%**
$91,151 - $190,150	**28%**	$151,901 - $231,450	**28%**	$130,151 - $210,800	**28%**
$190,151 - $413,350	**33%**	$231,451 - $413,350	**33%**	$210,801 - $413,350	**33%**
$413,351 - $415,050	**35%**	$413,351 - $466,950	**35%**	$413,351 - $441,000	**35%**
$415,051+	**39.6%**	$466,951+	**39.6%**	$441,001+	**39.6%**

Source: Internal Revenue Service, "Revenue Procedures 2015-53."

Source: IRS.

Payroll and Medicare taxes

Payroll taxes for Social Security benefits are collected under the authority of the Federal Insurance Contributions Act (FICA), and often referred to as the FICA tax. For 2017,Social Security (Old-Age, Survivors and Disability Insurance, or OASDI) withholding remains 6.2%, but the wage base limit was raised from $118,500 to $127,500. That means a maximum of $7,886.40 per employee will be withheld in 2017 ($127,200 × .062).

The wage base for Medicare withholding remains unlimited (employee tax rate of 1.45%), but healthcare reform legislation in 2013 increased Medicare payroll withholding by 0.9% to

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2.35% for amounts over $200,000 (single filers) or $250,000 (married filing jointly). Also, an additional 3.8% surtax applies to net investment income for taxpayers with adjusted gross income (AGI) over $200,000 (single filers) or $250,000 (married filing jointly).
For more information on these and other changes, please see the article on inflation adjustments on the IRS website or read about Social Security cost-of-living adjustments at SSA.gov.

Long-term capital gains and qualified dividends

A top rate of 15% applies to qualified dividends and the sale of most appreciated assets held over one year (28% for collectibles and 25% for depreciation recapture) for single filers with taxable income up to $418,400 ($470,700 for married filing jointly). Long-term capital gains or qualified dividend income over that threshold are now taxed at a rate of 20%.

> EXAMPLE: If a married couple already has $470,700 of taxable income and an additional $100,000 in long-term capital gains and qualified dividends, the entire $100,000 would be subject to the 20% rate. If, however, they only had $400,000 of taxable income and $100,000 in long-term capital gains and qualified dividends, then $70,700 of the additional amount would be taxed at 15% and $29,300 would be taxed at 20%.

Phase-out of itemized deductions and exemptions

For 2017, the phase-out of certain itemized deductions and exemptions applies to single taxpayers with AGI above $261,650 and married taxpayers filing jointly with AGI above $313,800.

See if you're exempt from the Alternative Minimum Tax (AMT)

The AMT income exemption amounts increase in 2017 to $84,500 for married couples filing jointly and $54,300 for single filers.

Take advantage of lower tax rates for children

In 2017, children under 19 will pay no federal income tax on the first $1,050 of unearned income (such as capital gains or interest) and will be taxed at their own rate on the next $1,050. However, they will be taxed at their parents' tax rate on unearned income in excess of $2,100. (This will also be the case for full-time college students under age 24, unless their earned income is greater than one-half of their parents' support.)
Individuals age 19 and older (and dependent full-time college students age 24 and older) pay taxes at their own rate.

Boost your retirement savings and potentially enjoy tax benefits

Type of Plan	2016 Limit
401(k), 403(b) & 457 deferrals	$18,000
401(k) & 403(b) catchup contributions *	$6,000
Defined contribution plan dollar limit	$53,000
Defined benefit plan dollar limit	$210,000
IRA	$5,500
IRA catchup contribution *	$1,000
SEP compensation	$600
Simple retirement accounts	$12,500
Simple & IRA catchup contributions *	$3,000

*** Catchup contributions may be made by taxpayers over 50.**

Source: IRS.

A few things to note about contribution limits:

- **Traditional IRAs.** Money you put in a traditional IRA is generally tax-deductible. However, if you're an active participant in a qualified workplace retirement plan, like a 401(k) or 403(b), restrictions apply. If you're a single filer, your contribution is partially deductible if your modified adjusted gross income (MAGI) is between $62,000 and $72,000. If you're a married couple filing jointly, your 2017 contribution is partially deductible if your MAGI is $99,000 to $119,000. If you don't participate in a retirement plan at work, but your spouse does and you file jointly, your contribution is partially deductible if your MAGI is between $186,000 and $196,000[2].

- **Roth IRAs**. If you're a single filer and your MAGI is $118,000 or less, your contribution limit is $5,500 (or $6,500 if you're 50 or older) in 2017. The contribution limit is gradually reduced for those with MAGIs between $118,000 and $133,000. If you're a married couple filing jointly and your MAGI is $186,000 or less, your contribution limit is $5,500 ($6,500 if you're 50 or older). That contribution limit is gradually reduced for those with MAGIs between $186,000 and $196,000.

Anyone can convert all or part of a traditional IRA to a Roth IRA, regardless of income level or filing status. Converting could be advantageous if you expect to be in the same or higher tax bracket when you withdraw the money, have a reasonably long time horizon and can afford to pay the conversion tax from a source other than your IRA at the time of conversion.

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Manage college expenses with these nifty tax benefits

Consider these tax-favored ways to pay for college costs:

- **A Coverdell education savings account.** If you're a single filer, you may make a maximum contribution of $2,000 per year per child, subject to income limitations. Be careful if accounts are established by different family members for the same child. Total contributions may not exceed $2,000 in any one year.

- **A 529 college savings plan.** Although there's no limit to how much you can contribute each year, each state's plan has its own lifetime limit—typically more than $200,000 per designated beneficiary[3]. You can also treat a 529 contribution as being made over five years for gift tax purposes. For example, a married couple could contribute up to $140,000 per child up front without using any of their lifetime gift tax credit (see below).

- **Tax credits.** The American Opportunity Tax Credit is a modification of the Hope Credit and makes the credit available to a broader range of taxpayers. You may claim up to $2,500 on eligible college expenses paid from a non-529 account, subject to income limitations.

- **Tax deductions.** You may be able to deduct up to $2,500 of student loan interest, subject to income limitations.

Plan your gifts and estate to make the most of these tax breaks

The gift tax annual exclusion amount remains $14,000 for 2017. That means you generally can give up to $14,000 every year (or $28,000 for spouses splitting gifts) to any number of people without those gifts being taxed. You can also give unlimited amounts toward tuition or medical expenses if you pay the provider directly. Beyond that, the lifetime gift and estate tax exemption will apply (see table below).

	2016	2017
Federal Gift and Estate Tax Exemption	$5,450,000	$5,490,000
GST Tax Exemption	$5,450,000	$5,490,000
Gift Tax Annual Exclusion	$14,000	$14,000
Annual Exclusion for Gifts to Noncitizen Spouse	$148,000	$149,000

*Adjusted annually for inflation

I hope this enhanced your understanding of tax updates for 2017.
Next Step Talk to us

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