

## **WHAT'S NEW IN TAXES FOR 2016** by Robert D Flach, the internet's [Wandering Tax Pro](#)

Here is the inflation-adjusted and COLA numbers for tax year 2016. Many items have not changed from 2015 -

### **THE STANDARD DEDUCTION**

- Single and Married Filing Separate = \$6,300
- Married Filing Joint and Qualifying Widow(er) = \$12,600
- Head of Household = \$9,300

The Standard Deduction for a dependent is the greater of (1) \$1,050, or (2) the sum of \$350 and the individual's earned income (up to \$6,300).

The additional Standard Deduction amount for the age 65 or older or blind is \$1,250 for married individuals and \$1,550 for Single and Head of Household.

### **PERSONAL EXEMPTION**

The personal exemption is \$4,050.

### **THE PEP REDUCTION OF PERSONAL EXEMPTIONS**

Personal exemptions are reduced by 2% for each \$2,500 (\$1,250 if Married Filing Separate), or portion thereof, that a taxpayer's Adjusted Gross Income (AGI) exceeds \$259,400 for Single filers, \$285,350 for Head of Household, \$311,300 for Married Filing Joint or Qualifying Widow(er), and \$155,650 for Married Filing Separate. Personal exemptions are totally phased out at AGIs of \$381,900 for Single, \$407,850 for Head of Household, \$433,800 for Married Filing Joint or Qualifying Widow(er), and \$216,900 for Married Filing Separate.

### **LONG-TERM CARE INSURANCE PREMIUM AGE-BASED DEDUCTION LIMITS**

- Age 40 or less = \$390
- Age 41-50 = \$730
- Age 51-60 = \$1,460
- Age 61-70 = \$3,900
- Age 71 + older = \$4,870

### **THE STANDARD MILEAGE ALLOWANCE**

Effective January 1, 2016, the standard mileage rates are –

- 54 cents per mile for business miles
- 19 cents per mile for medical or moving purposes
- 14 cents per mile in service of charitable organizations

### **THE PEASE REDUCTION OF ITEMIZED DEDUCTIONS**

Itemized deductions are reduced by 3% of the amount a taxpayer's AGI exceeds \$259,400 for Single filers, \$285,350 for Head of Household, \$311,300 for Married Filing Joint or Qualifying Widow(er), and \$155,650 for Married Filing Separate. The reduction

cannot exceed 80% of total itemized deductions (not including any deductions for medical expenses, investment interest, and casualty, theft, or gambling losses).

CONTRIBUTION LIMITS FOR TAX-DEFERRED PENSION PLANS

- IRA = \$5,500
- IRA Catch-Up Contributions at age 50 and older = \$1,000
- SIMPLE Plan = \$12,500
- SIMPLE Catch-Up Contributions at age 50 and older = \$3,000
- 401(k), 403(b), 457, and federal Thrift Savings Plan = \$18,000
- 401(k), 403(b), 457, and federal Thrift Savings Plan Catch-Up Contributions at age 50 and older = \$6,000

The deduction for contributions to a traditional IRA by taxpayers who are active participants in an employer retirement plan is phased out for Single and Head of Household filers with Adjusted Gross Income (AGI) between \$61,000 and \$71,000 and for those who are Married Filing Joint and Qualifying Widow(er) with AGI of \$98,000 to \$118,000. The phase-out range for a married taxpayer filing a separate return who is covered by an employer plan is \$0 - \$10,000.

The deduction on a joint return for a spouse that is not an active participant in an employer plan but who is married to one who is phases out at AGI of \$184,000 to \$194,000.

The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$117,000 to \$132,000 for Single and Head of Household filers and \$184,000 to \$194,000 for Married Filing Joint and Qualifying Widow(er). The phase-out range for a married taxpayer filing a separate return who is covered by an employer plan is \$0 - \$10,000.

STUDENT LOAN INTEREST

The deduction for student loan interest, capped at \$2,500, phases out at AGI between \$65,000 to \$80,000 for Single, Head of Household and Qualifying Widow(er) and \$130,000 to \$160,000 for Married Filing Joint. No deduction is allowed on a Married Filing Separate return.

TAX RATE SCHEDULES

Tax Rate	Single	Married Filing Joint Qualifying Widow(er)	Married Filing Separate	Head of Household
10%	Up to \$9,275	Up to \$18,550	Up to \$9,725	Up to \$13,250
15%	\$9,276–\$37,650	\$18,551–\$75,300	\$9,726–\$37,650	\$13,251–\$50,400
25%	\$37,651–\$91,150	\$75,301–\$151,900	\$37,651–\$75,950	\$50,401–\$130,150
28%	\$91,151–\$190,150	\$151,901–\$231,450	\$75,951–\$115,725	\$130,151–\$210,800
33%	\$191,151–\$413,350	\$231,451–\$413,350	\$115,726–\$206,675	\$210,801–\$413,350
35%	\$413,351–\$415,050	\$413,351–\$466,950	\$206,676–\$233,475	\$43,351–\$441,000
39.6%	Over \$415,050	Over \$466,950	Over \$233,475	Over \$441,000

## LIFETIME LEARNING CREDIT

The AGI phase-out range for taxpayers claiming a Lifetime Learning Credit is \$55,000 to \$65,000 for Single, Head of Household and Qualifying Widow(er) and \$111,000 to \$131,000 for Married Filing Joint and Qualifying Widow(er). No credit is allowed on a Married Filing Separate return.

## THE RETIREMENT SAVINGS CONTRIBUTIONS CREDIT

2016 Saver's Credit			
Credit Rate	Married Filing Jointly	Head of Household	All Other Filers
50% of your contribution	AGI not more than \$37,000	AGI not more than \$27,750	AGI not more than \$18,500
20% of your contribution	\$37,001 - \$40,000	\$27,751 - \$30,000	\$18,501 - \$20,000
10% of your contribution	\$40,001 - \$61,500	\$30,001 - \$46,125	\$20,001 - \$30,750
0% of your contribution	more than \$61,500	more than \$46,125	more than \$30,750

## THE ALTERNATIVE MINIMUM TAX

The AMT exemption amount is –

- \$53,900 - Single and Head of Household
- \$83,800 - Married Filing Joint and Qualifying Widow(er)
- \$41,900 - Married Filing Separate

The AMT exemption is reduced as Alternative Minimum Taxable Income exceeds –

- \$119,700 – Single and Head of Household
- \$159,700 – Married Filing Joint and Qualifying Widow(er)
- \$ 79,850 – Married Filing Separately

The 28% AMT tax rate kicks in at AMT net taxable income (after deducting the exemption allowed) of \$186,300 (\$93,150 for Married Filing Separate).

## THE NET INVESTMENT INCOME TAX

The Net Investment Income Tax is a surtax of 3.8% on the lesser of Modified Adjusted Gross Income (MAGI) in excess of the threshold amount for your filing status or net investment income.

Net Investment Income includes taxable interest, dividends, net capital gains, annuities, royalties, net rental income, and other passive income less deductible penalties on early withdrawal of savings, state income taxes on the investment income, investment interest, and miscellaneous investment expenses.

The MAGI threshold amounts are:

Married Filing Jointly or Qualifying Widow(er) = \$250,000  
Single or Head of Household = \$200,000  
Married Filing Separately = \$125,000

If you are married filing a joint return and your MAGI is \$260,000 and net investment income is \$7,000 you pay the surtax on \$7,000. If net investment income is \$12,000 you pay the surtax on \$10,000.

#### THE MEDICARE SURTAX

An additional 0.9% Medicare Tax is assessed on wages and self-employment income in excess of the following amounts:

Married Filing Jointly or Qualifying Widow(er) = \$250,000  
Single or Head of Household = \$200,000  
Married Filing Separately = \$125,000

The additional 0.9% Medicare Tax may or may not be withheld from your wages by your employer. If it is it is treated on the Form 1040 as additional income tax withholding.

#### FOREIGN EARNED INCOME

The foreign earned income exclusion is \$101,300.

#### KIDDIE TAX

The amount which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax" is \$1,050.

#### SOCIAL SECURITY WAGE BASE

The maximum amount of wages subject to the 6.2% Social Security tax is \$118,500. The maximum Social Security tax withholding is \$7,347. The maximum Social Security component of self-employment tax is \$14,694.

#### FLEXIBLE SPENDING ARRANGEMENTS

The maximum amount that an employee can contribute to an employer-sponsored "pre-tax" Flexible Spending Arrangement (FSA) for health care expenses is anticipated to remain at \$2,550.

#### ESTATE AND GIFT TAX

The annual gift tax exclusion is \$14,000 per person.

The estate tax exemption, also known as the unified credit, is \$5,450,000.

## **IRS ANNOUNCES 2016 INFLATION ADJUSTMENTS FOR BENEFITS EXTENDED BY PATH ACT**

The IRS has released inflation-adjusted figures for certain items that are adjusted for inflation due to the enactment of the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), **effective for tax years beginning in 2016:**

- (1) The maximum deduction for expenses paid or incurred by an eligible educator in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by the educator in the classroom is \$250.
- (2) The monthly limitation for the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is \$255.
- (3) Under Code Sec. 179(b)(1) The maximum amount of Code Sec. 179 property that a taxpayer can elect to treat as an expense cannot is \$500,000. This \$500,000 limitation is reduced, but not below zero, by the amount the cost of Section 179 property placed in service during the 2016 tax year exceeds \$2,010,000.

# TAX GUIDE FOR NEW HOMEOWNERS

by Robert D Flach  
the internet's [Wandering Tax Pro](#)

I have written a guide especially for new homeowners - a detailed review of all of the special tax benefits available to homeowners.

The guide discusses –

- ✓ itemized deductions for real estate taxes, mortgage interest, points, and mortgage insurance premiums,
  - ✓ the home office deduction,
  - ✓ rental income and deductions for a 2-family home,
  - ✓ the home sale exclusion, and
  - ✓ the dreaded Alternative Minimum Tax.

It also includes special sections on Other Itemized Deductions and Choosing a Tax Professional, a listing of the 2016 inflation adjustments for deductions and credits, and special forms, schedules, and worksheets to use during the year and at tax time.

The cost of this special tax guide, sent to you as a pdf email attachment, is **only \$7.95**. A print version is also available for \$9.95.

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