<u>2017 SUMMARY OF TAX CHANGES AND GUIDELINES</u>

- In 2017, the **"kiddie tax"** provision applies to those up to *<u>under age 18</u>* and with the threshold amount of $1,050 and 18-year-olds who have unearned income in excess of $2,100, as well as full-time students between the ages of 19 and 24.

- The **Child Tax Credit** remains at $1,000 per dependent child under age 17, phasing out at **modified adjusted gross income** (**MAGI**) of $75,000 for singles and $110,000 for couples.

- The maximum **child and dependent care credit** is 35% of child care expenses for qualifying taxpayers, up to $3,000 (one child) or $6,000 (more than one). Everyone over $43,000 receives a 20% credit.

- **Student Loan Interest** is deductible up to $2,500. The deduction begins to phase out at a modified AGI of $65,000 for singles and $135,000 for couples.

- **Education IRAs (Coverdells):** Taxpayers can use these non-deductible funds for elementary, secondary and post-secondary school expenses (until the child reaches age 30). The maximum annual contribution is $2,000 per child (under age 18 or a special needs beneficiary). Phase-out starts at AGI of $110,000 for singles and $220,000 for couples

- **Education Credits:** The American Opportunity Tax Credit (formerly the Hope Credit) has been increased to a maximum credit at $2,500 beginning in 2009. The credit is now allowed for the first four years of post-secondary education and 40% of the credit is refundable. The credit begins to phase out at $80,000 for single taxpayers and $160,000 for joint taxpayers. The **Lifetime Learning Credit** remains at 20% of qualified expenses up to a maximum credit of $2,000. The credit begins to phase out at $56,000 for single taxpayers and $112,000 for joint taxpayers. Only one type of credit per student is allowed.

- No deduction is allowed for any **contribution** of cash, check or other monetary gift unless the donor can show a bank record or a written communication from the charity indicating the name of the charity, along with the amount and date of the contribution. Also, no deduction is allowed for used clothing and household items unless the items are in "good" condition.

- The amount of contributions or benefits that can be provided for taxpayers as participants under a qualified plan is limited, based on the type of plan. This year, the amount of contributions and benefits that can be provided under both **defined contribution and defined benefit plans** is $54,000. The compensation used to determine contributions to qualified plans is $270,000.

- **Credit for Retirement Savings:** Taxpayers may be eligible for a credit of 10% to 50% for qualified retirement savings contributions if adjusted gross income is no more than $31,000 for singles, $46,500 if head of household, and $62,000 if married filing jointly.

- For taxpayers with AGI above $150,000, the **2016 safe harbor for estimated tax purposes** is 110% of last year's liability (2016) or 90% of the tax shown on your return for 2017. (The threshold amount of deficiency in withholding and estimated tax payments that actually triggers penalties is still $1,000.) For others, the safe harbor is 90% of their 2017 tax or 100% of their 2016 tax. **Note:** Pennsylvania strictly enforces its underpayment penalty provisions.

- The official **per-mile rate for business use of a car** was 53.5 cents for the 2017 tax year. The mileage rate for the 2018 tax year will be 54.5 cents per mile.

- The health **insurance deduction for the self-employed** is 100%, including payments for both Medicare A and B (Employees who pay for their own health coverage still get only an itemized deduction). There is no deduction allowed if the self-employed had no profit for the year, nor for any month the individual could have participated in a health plan subsidized by an employer (or the spouse's employer).

- **IRAs:** The start of the $5,500 (for singles) and $11,000 (for MFJ) phase out for tax-deductible contributions to regular IRAs by "active participants" in employer-sponsored plans is $62,000 AGI for singles and $99,000 AGI for couples. Also, taxpayers 50 and over can make “catch-up” contributions to IRAs, 401(k)s and SIMPLEs (see chart below).

Retirement Plan Contribution Limits

Year	401(k)s	401(k)s for Taxpayers 50 & over	IRAs *	IRAs * for Taxpayers 50 & over	SIMPLEs	SIMPLEs for Taxpayers 50 & over
2017	$18,000	$24,000	$5,500	$6,500	$12,500	$15,500
2018	$18,500	$24,500	$5,500	$6,500	$12,500	$15,500

*Traditional and Roth IRAs

- Eligibility for **home-office** deductions extends to those who regularly and exclusively use the home office for administrative or managerial tasks and have no other fixed location where they conduct such activities.

- The **“Section 179”** expensing provision limit is $510,000 and the phase out threshold is $2,030,000 for 2017. N**ote:** For SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) placed in service in 2017, the expensing amount is limited to $25,000.

- The limit on the **automobile depreciation deduction** is $3,160; it is $3,560 for light trucks and vans. The vehicle must be used more than 50 percent in a business.

- The **self-employment tax** is $15,773 plus 2.9% of self-employment income above $127,200 plus an additional Medicare tax at a rate of .9% on self-employment income over $200,000 for single taxpayers and $250,000 for married filing jointly taxpayers. One-half of the tax is deductible as an adjustment to income.

- The **phase-out of personal exemptions** and **itemized deductions** for tax year 2017 starts at $261,500 for single taxpayers and $313,800 for married filing jointly taxpayers.

- **Increased medical expense threshold:** In 2017, the threshold for the itemized deduction for unreimbursed medical expenses is 10 percent of AGI for regular income tax purposes. For AMT purposes, medical expenses remain deductible only to the extent they exceed 10 percent of AGI. However, taxpayers (or their spouses) who are age 65 and older before the close of the tax year are exempt from the increased threshold of 10 percent for the 2014 through 2017 tax years. These taxpayers can continue to deduct qualified medical expenses that exceed 7.5 percent of AGI.

- **Capital gains tax** is 20% for transactions made in 2017 by higher-income tax payers that are subject to the 39.6% income tax rate. The 0% rate still applies to those tax payers in the 10 to 15% brackets and 15% for those in the 25, 28, 33, and 35% brackets.

- **Net Investment Income Tax (NIIT):** Taking effect on January 1, 2013, a Medicare surtax of 3.8 percent is imposed on the lesser of net investment income (NII) or modified adjusted gross income (MAGI) above a specified threshold. However, the Medicare surtax is not imposed on income derived from a trade or business, nor from the sale of property used in a trade or business.

  NII includes the following investment income reduced by certain investment-related expenses, such as investment interest expense, investment brokerage fees, royalty-related expenses, and state and local taxes allocable to items included in net investment income:

  - Gross income from interest, dividends, annuities, royalties, and rents, provided this income is not derived in the ordinary course of an active trade or business;
  - Gross income from a trade or business that is a passive activity;
  - Gross income from a trade or business of trading in financial instruments or commodities; and
  - Gain from the disposition of property, other than property held in an active trade or business.

Individuals are subject to the 3.8 percent NIIT if their MAGI exceeds the following thresholds (which are not adjusted for inflation):

- $250,000 for married taxpayers filing jointly or a qualifying widower with a dependent child;
- $125,000 for married taxpayers filing separately; and
- $200,000 for single and head of household taxpayers.

- **Additional Medicare Tax:** Beginning in 2013, higher income individuals are subject to an additional 0.9 percent Medicare tax, not to be confused with the 3.8 percent Medicare surtax on NII. The additional Medicare tax means that the portion of wages received in connection with employment in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately) is subject to a 2.35 percent Medicare tax rate. The additional Medicare also applies to self-employed individuals. To avoid an underpayment penalty related to this tax or the NIIT, you can instruct your employer to withhold an additional amount of federal income tax from your wages before year end.

- The **AMT exemption amount** is currently $84,500 for married couples and $54,300 for singles.

- Retired clients with adjusted base income over $34,000 and couples over $44,880 are taxed on the lesser of half of their **Social Security benefits** or half of "provisional" income over the base amounts. The maximum amount taxable is 85% of benefits.

- If you receive **Social Security benefits** and you are working, your earnings will reduce your benefit amount only until you reach **your full retirement age** (66 for those born from 1943-1954 and 66 and 2 months for those born in 1955). If you are under full retirement age for the entire year, the deduction is $1 for every $2 your income exceeds $16,920 in 2017. The test applies to each person, not to couples. For beneficiaries attaining full retirement age in 2017, the deduction is $1 for every $3 you earn over the limit of $44,880 in 2017 before the month you reach your full retirement age.

- **Same-Sex Marriage Ruling:** The same-sex marriage ruling states that same-sex couples who are legally married in a state that recognizes their marriage are considered married for federal tax purposes, regardless of whether their state recognizes same-sex marriage. Although this ruling was effective September 16, 2013, it is applied retroactively for 2013. As a result, in 2013 and all future years, legally married same-sex couples must file their federal income tax returns as married filing jointly (MFJ) or married filing separately (MFS).

  The ruling opens the door for same-sex married couples to enjoy all of the federal tax-related benefits previously available only to opposite-sex married couples. Any same-sex marriage legally entered into in one of the 50 states, the District of Columbia, a U.S. territory or a foreign country is covered by the ruling. These benefits include (but are not limited to):

  - Income tax benefits such as marriage penalty relief
  - Estate and gift tax benefits
  - MFJ or MFS filing status and standard deduction
  - Claiming personal and dependency exemptions
  - Claiming child-driven credits
  - Taxpayer-friendly employee benefits
  - Spousal IRAs