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DLD NEWS AND VIEWS

2016 INDIVIDUAL INCOME TAX

Since the 2015 tax return program is now over; we can begin to focus on 2016. The following is a brief description of some of the more universal issues to think about:

Educator expenses. Beginning in 2016, this up-to-\$250 per educator deduction can include certain expenses for professional development courses related to the curriculum, or to the students, that the educator teaches.

Moving expenses. The 2016 standard mileage rate for moving expenses is 19¢ per mile.

IRA deduction. In general, an individual who isn't an active participant in certain employer-sponsored retirement plans, and whose spouse isn't an active participant, may make an annual deductible cash contribution to an IRA up to the lesser of: (1) a statutory dollar limit, or (2) 100% of the compensation that's includible in his gross income for that year. For 2016, the statutory dollar limit is \$5,500, plus an additional \$1,000 for those age 50 or older. If the individual (or his spouse) is an active plan participant, the deduction phases out over a specified dollar range of modified AGI (MAGI). For 2016, a taxpayer may be able to take an IRA deduction if he was covered by a retirement plan and his 2016 MAGI is less than \$71,000 (\$118,000 if married filing jointly or qualifying widow(er)). If the taxpayer's spouse was covered by a retirement plan, but the taxpayer was not, he may be able to take an IRA deduction if 2016 MAGI is less than \$194,000.

Standard deduction. For 2016, the standard deduction is \$6,300 for single filers and for married persons filing separately, \$12,600 for joint filers and qualifying widow(er)s, and \$9,300 for heads of household.

Exemptions. The amount for each exemption for 2016 is \$4,050. Exemptions are reduced for taxpayers with AGIs in excess of the "applicable amount" (\$311,300 for joint filers or a surviving spouse, \$285,350 for a head of household, \$259,400 for a single individual who isn't a surviving spouse, and \$155,650 for marrieds filing separately).

Alternative minimum tax. The alternative minimum tax (AMT) exemption amount for 2016 is \$53,900 (\$83,800 if married filing jointly or a qualifying widow(er); \$41,900 if married filing separately). The AMT exemption amount is reduced if alternative minimum taxable income is above statutorily-defined amounts that depend upon filing status. The AMT tax rates are 26% and 28%. The tax liability is the higher of the "regular" tax liability or AMT tax liability.

Adoption credits. For 2016, the maximum adoption credit is \$13,460 per eligible child for both non-special needs adoptions and special needs adoptions. The amount begins to phase out if modified adjusted gross income (MAGI) is in excess of \$201,920 and is completely phased out if MAGI is \$241,920 or more.

Self-employment tax. Maximum amount of self-employment income subject to FICA tax rate of 15.3% is \$118,500. There is no ceiling on Medicare wage base which is taxed at the rate of 2.9% on the excess over \$118,500.

Health care: individual responsibility. As was the case in 2015, a taxpayer his/her spouse (if filing jointly) and his dependents must have health care coverage throughout 2016 unless they can claim an exemption from the health care coverage requirement for some or all of 2016 and attach Form 8965; or incur the ACA penalty.

The monthly shared responsibility payment amount has increased for 2016. For 2016, it is lesser of (i) the sum of the monthly penalty amounts for months in the tax year during which one or more failures occurs, or (ii) the sum of the monthly national average bronze plan premiums for the plan. The monthly penalty amount is equal to 1/12 of the greater of \$695 per family member (up to a ceiling of \$2,085) or 2.5% of the amount by which the taxpayer's household income exceeds the filing threshold.

Excess social security and RRTA tax withheld. The maximum Social Security (OASDI) tax for 2016 is \$7,347 (computed on the first \$118,500 of wages) for purposes of the credit for excess tax withheld.

Refund. IRS can't issue refunds before February 15, 2017 for 2016 returns, for returns that claim the earned income credit and/or the additional child tax credit. This rule applies to the entire refund, not just the portion associated with those credits.

Amount you owe. Balance due can be paid by check, electronically when the return is electronically filed or by access to "Direct Pay" or "Pay By Card" by downloading the IRS mobile application, IRS2GO.

While there is much talk and discussion about the Clinton and Trump tax plans, it is fairly certain that at this point little or nothing will change for 2016. So – let's wait and see.

Think about it...

....it's better to do something than to do nothing....

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Disclaimer: *This e-mail represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.*