

## 2016 Tax Law Changes

**Tax Rates** – Tax rates range from 10% to 39.6%. The top tax rate of 39.6% applies to taxpayers with taxable income above \$415,051 (\$466,951 for married taxpayers and \$441,001 for heads of households).

**Capital Gains and Qualified Dividends** – The top tax rate for capital gains and dividends remains at 20%. That top rate will apply to the extent that a taxpayer's income exceeds the thresholds set for the 39.6% rate (\$415,051 for single filers, \$466,951 for joint filers and \$441,001 for heads of households). Otherwise, the 0% and 15% brackets are available for taxpayers with lower taxable income.

**Net Investment Income Tax** – The net investment income tax of 3.8% continues for 2016. This tax applies to net investment income, which includes gross income from interest, dividends, annuities, royalties, rents, capital gains, and other types of financial and passive income. This tax will be assessed to individuals with modified adjusted gross income in excess of \$200,000 (\$250,000 for joint filers) and also to estates and trusts at much lower thresholds of income.

**Additional Medicare Tax** – Individuals will be subject to a 0.9% tax on earned income from wages and self-employment income in excess of \$200,000 (\$250,000 for joint filers).

**Personal Exemption and Itemized Deduction Phase-outs** – Higher income taxpayers are subject to a phase-out of their personal exemptions and itemized deductions starting at adjusted gross income of \$259,400 or more for single filers (\$311,300 for married couples filing jointly, and \$285,350 for head of household).

**Energy Efficient Property Credits** – Taxpayers who invest in solar energy electric and heating property, small wind energy property (wind turbines), fuel cell property and geothermal heat pumps can claim a tax credit of 30% of the cost of such property. Congress has extended the solar and wind credits through 2019, while 2016 is the last year for which the fuel cell and geothermal credits can be claimed. A credit of up to \$500 remains for qualifying non-business energy property, including exterior windows, water heaters and insulation.

**Education Tax Credits** – The American Opportunity Tax Credit can be applied to qualified education expenses for the first 4 years of higher education. The maximum credit is \$2,500, of which 40% is refundable. The credit begins to phase out for individuals with adjusted gross income over \$80,000 (\$160,000 for joint filers). The Lifetime Learning credit is also available for education expenses beyond the first 4 years of higher education and also for education taken to acquire or improve job skills. The Lifetime Learning credit begins to phase out for individuals with adjusted gross income over \$55,000 (\$111,000 for joint filers).

**Sales Tax Deduction** – The option to deduct state and local sales taxes instead of state and local income taxes on Schedule A has been made permanent. Taxpayers have the choice of using actual sales tax paid or using IRS tables to determine approximate sales tax paid based on income and family size.

**Educator Expenses** – A \$250 above the line deduction exists for out of pocket classroom expenses paid by teachers of grades K – 12.

**Estate and Gift Tax** – The current maximum federal estate tax rate is 40% with an exclusion of \$5,450,000 for 2016 (\$5,490,000 for 2017). The annual gift tax exclusion remains at \$14,000 through 2017, while portability of the deceased spousal unused exclusion has been made permanent.

**Business Deductions** – The Protecting Americans from Tax Hikes (PATH) Act of 2015 made permanent the Section 179 deduction, which allows businesses to write off up to \$500,000 of qualifying equipment and software expenses. The PATH Act also extended 50% bonus depreciation through 2019.

**Tax Year 2017 and Beyond** – With a new president taking office and the Republican party retaining control of both the Senate and the House of Representatives, 2017 should be an interesting year as it pertains to tax policy changes. Elimination of the estate tax, drastically reduced tax rates and significant roll-backs of itemized deductions are just a few of the many proposed revisions that could significantly alter the current tax landscape. While there is no way of knowing exactly how these changes will unfold, rest assured that we will be monitoring them closely. As always, do not hesitate to contact us with any questions or concerns.