The Kiplinger Tax Letter

CIRCULATED BIWEEKLY TO BUSINESS CLIENTS SINCE 1925

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SPECIAL

NEW TAX RULES FOR 2017

Dear Client: Washington, July 2017

HIGHLIGHTS

Personal Taxes New tax brackets

Minimum Tax Higher exemptions

Social Security Wage base hike

Medicals HSAs, long-term care

Estate & Gift Tax Exemption rises

Savings Plans 401(k) payin limit

Tax reform continues to be a hot topic. Congressional GOP leaders and White House officials are holding regular meetings to discuss the facets of a major overhaul of the federal tax system. They will unveil a detailed plan sometime this fall.

Expect debate to drag on through year-end.

For now, we'll note changes in place for 2017. Most reflect prior-year inflation. Others are new rules. But one thing is certain: All taxpayers will be affected.

FILING DEADLINES

Some key filing due dates have changed. Employers are required to file W-2s with the federal government by Jan. 31, up from the prior deadlines of Feb. 28 for paper returns and March 31 for e-filings. This earlier deadline matches the date for sending copies of the forms to employees. The Jan. 31 due date also applies to 1099s reporting nonemployee compensation.

Returns of partnerships are now due 2½ months after year-end...March 15 for calendar-year firms. Those needing more time can request a six-month extension.

The due date for most regular corporations is 3½ months after year-end... generally April 15 for calendar-year firms...but they can request a six-month extension. The deadline for S firms and corporations with a June 30 fiscal year hasn't changed.

The filing date for owners of foreign accounts has moved up to April 15. Filers who miss the deadline get an automatic six-month extension to file. In the past, U.S. owners of these accounts had until June 30 to file FinCEN Form 114 to report them if the total value exceeded $10,000 at any time during the prior year.

BUSINESS TAXES

The 2017 standard mileage rate for business driving falls to 53½¢ a mile, a 0.5¢ drop. The rate decreases to 17¢ a mile for travel for medical purposes and job-related moves. But the rate for charitable driving remains at 14¢ per mile.

$510,000 of assets can be expensed in 2017, and this figure phases out dollar for dollar once over $2,030,000 of assets are put into service during the year.

Two business tax breaks first apply on 2016 returns filed in 2017:

Small start-ups can opt to claim $250,000 of R&D costs to offset payroll taxes instead of their regular income tax liability. The election is available to companies in business for five years or less that have gross receipts under $5 million.

Businesses that hire the long-term unemployed get a tax credit. The work opportunity tax credit is expanded to cover employers that hire people who've been out of work for 27 weeks or more and received unemployment benefits. The 40% credit on the first $6,000 in wages applies for those beginning work after 2015.

PREPARERS

Tighter rules apply to preparers of returns that claim the child credit... And the American Opportunity Tax Credit. Starting with 2016 tax returns due in 2017, preparers have to document how they figured a filer's claim was valid, similar to the rules that now apply to returns claiming the earned income credit. Form 8867 now includes a due diligence checklist that includes all three credits.

PERSONAL TAXES

The income tax brackets for 2017 are a tad wider than for 2016 because of mild inflation during the 12-month period...from Sept. 2015 through Aug. 2016...used to figure the adjustments. Tax rates do not change.

Marrieds: If taxable income is	**The tax is**
Not more than $18,650	10% of taxable income
Over $18,650 but not more than $75,900	$1,865.00 + 15% of excess over $18,650
Over $75,900 but not more than $153,100	$10,452.50 + 25% of excess over $75,900
Over $153,100 but not more than $233,350	$29,752.50 + 28% of excess over $153,100
Over $233,350 but not more than $416,700	$52,222.50 + 33% of excess over $233,350
Over $416,700 but not more than $470,700	$112,728.00 + 35% of excess over $416,700
Over $470,700	$131,628.00 + 39.6% of excess over $470,700
Singles: If taxable income is	**The tax is**
Not more than $9,325	10% of taxable income
Over $9,325 but not more than $37,950	$932.50 + 15% of excess over $9,325
Over $37,950 but not more than $91,900	$5,226.25 + 25% of excess over $37,950
Over $91,900 but not more than $191,650	$18,713.75 + 28% of excess over $91,900
Over $191,650 but not more than $416,700	$46,643.75 + 33% of excess over $191,650
Over $416,700 but not more than $418,400	$120,910.25 + 35% of excess over $416,700
Over $418,400	$121,505.25 + 39.6% of excess over $418,400
Household Heads: If taxable income is	**The tax is**
Not more than $ 13,350	10% of taxable income
Over $13,350 but not more than $50,800	$1,335.00 +15% of excess over $13,350
Over $50,800 but not more than $131,200	$6,952.50 + 25% of excess over $50,800
Over $131,200 but not more than $212,500	$27,052.50 + 28% of excess over $131,200
Over $212,500 but not more than $416,700	$49,816.50 + 33% of excess over $212,500
Over $416,700 but not more than $444,550	$117,202.50 + 35% of excess over $416,700
Over $444,550	$126,950.00 + 39.6% of excess over $444,550

The 2017 standard deductions go up a bit. Married couples get $12,700, plus $1,250 for each spouse age 65 or older. Singles can claim $6,350...$7,900 if 65 or up. Household heads get $9,350, plus $1,550 once they reach age 65. Blind people receive $1,250 more ($1,550 if unmarried and not a surviving spouse).

High-incomers lose itemized deductions starting at a higher level in 2017. Their write-offs are slashed by 3% of the excess of AGI over $261,500 for singles, $287,650 for household heads and $313,800 for marrieds. But the total reduction can't exceed 80% of itemizations. Medicals, investment interest, casualty losses and gambling losses (to the extent of winnings) are exempted from this cutback.

Personal exemptions stay at $4,050 for filers and their dependents in 2017. However, this tax break is phased out for upper-incomers. It is trimmed by 2% for each $2,500 of AGI over the same thresholds as for the itemized deduction phaseout.

The 20% top rate on dividends and long-term gains starts at a higher amount for 2017: Singles with taxable income above $418,400, household heads over $444,550 and joint filers above $470,700. The 3.8% Medicare surtax boosts the rate to 23.8%. The regular 15% maximum rate applies for filers with incomes below these amounts, except that filers in the 10% or 15% income tax bracket still get the special 0% rate.

MINIMUM TAX

AMT exemptions go up for 2017. They increase to $84,500 for couples and $54,300 for both singles and heads of household. The phaseout zones for the exemptions start at higher income levels as well...above $160,900 for couples and $120,700 for single filers and household heads. Also, the 28% AMT bracket kicks in a little later in 2017...above $187,800 of alternative minimum taxable income.

SOCIAL SECURITY

The Social Security wage base increases in 2017 to $127,200, up $8,700 from 2016's cap. The Social Security tax rate on employers and employees remains at 6.2%. The employer's share of Medicare tax stays at 1.45% of all pay. The employees' share is 1.45%, too, but they also pay the 0.9% Medicare surtax on wages that exceed $200,000 for singles and $250,000 for married couples. This extra levy doesn't hit employers. Self-employeds are also subject to the surtax.

Social Security recipients see a tiny 0.3% hike in their benefits in 2017.

The earnings test limits head up, too. Individuals who turn 66 in 2017 do not lose any benefits if they earn $44,880 or less before they reach that age. People who are age 62 through 65 by the end of 2017 can make up to $16,920 before they lose any benefits. There is no earnings cap once a beneficiary turns 66.

The amount needed to qualify for coverage climbs to $1,300 a quarter. So earning $5,200 anytime during 2017 will net the full four quarters of coverage.

MEDICARE

For most, the 2017 monthly Medicare Part B premiums average $109. However, the basic premium increases to $134 a month for some people. The group that pays more includes individuals who first enroll in Part B for 2017 and folks who do not have premiums deducted from monthly Social Security benefits.

Upper-income seniors also pay more for Parts B and D coverage in 2017 if their modified adjusted gross incomes for 2015 exceeded $170,000 for joint filers or $85,000 for single people. Here, modified AGI is AGI plus any tax-exempt interest. For Part B, they pay the higher $134 basic monthly premium plus a surcharge. They also owe a surcharge on Part D premiums for prescription drug coverage. The combined surcharges on upper-incomers can be as large as $370.80 a month.

HEALTH CARE

The income levels to qualify for the health premium credit in 2017 go up. It is available to filers with household incomes ranging from 100% to 400% of the federal poverty level...$11,880 to $47,520 for singles and $24,300 to $97,200 for a family of four...who buy health insurance through one of the exchanges. Individuals who are eligible for Medicaid or other federal insurance don't qualify. Nor do individuals who can get affordable health insurance through their employers.

MEDICALS

The annual cap on deductible contributions to HSAs rises to $3,400 in 2017 for self-only coverage. The ceiling for account owners with family coverage remains $6,750. Individuals born before 1963 can put in an additional $1,000. Minimum policy deductibles stay at $2,600 for families and $1,300 for singles. The limits on out-of-pocket costs, such as deductibles and copayments, stay steady at $13,100 for people with family coverage and $6,550 for individual coverage.

The limits on deducting long-term-care premiums are higher in 2017. Taxpayers who are 71 or older can write off as much as $5,110 per person. Filers age 61 to 70...$4,090. Those who are 51 to 60 can deduct up to $1,530. Individuals age 41 to 50 can take $770. And people age 40 and younger...$410. For most, long-term-care premiums are medical expenses taken only by itemizers.

The threshold for deducting medical expenses on Schedule A jumps to 10% of AGI for taxpayers who are age 65 or older, starting with 2017 returns filed in 2018. This higher floor, set as part of Obamacare, has applied to younger filers since 2013.

ADOPTION

The adoption credit can be taken on up to $13,570 of costs, a $110 boost. If the credit is more than a filer's tax liability, the excess is not refundable. The full $13,570 credit is available for a special-needs adoption, even if it costs less. The credit phases out for folks with modified AGIs over $203,540 and ends at $243,540.

The exclusion for company-paid adoption aid also increases to $13,570.

ESTATE & GIFT TAX The estate and gift tax exemption for 2017 rises to $5,490,000. The rate remains 40%. The gift tax exclusion stays the same...$14,000 per donee. Up to $1,120,000 of farm or business realty can receive discount estate tax valuation.

More estate tax liability qualifies for an installment payment tax break. If one or more closely held businesses make up greater than 35% of an estate, as much as $596,000 of tax can be deferred, and IRS will charge only 2% interest.

FRINGE BENEFITS U.S. taxpayers working abroad have a larger income exclusion...$102,100.

The cap on employer-provided tax-free parking stays put at $255 a month. The exclusion for mass transit passes and commuter vans matches that amount.

Employees covered by health flexible savings plans can defer up to $2,600.

SAVINGS PLANS Most key dollar ceilings on retirement plans do not change for 2017: The 401(k) contribution limit remains $18,000, but folks born before 1968 can put in $6,000 more. These payin maximums apply to 403(b) and 457 plans, too. The cap on SIMPLEs stays at $12,500...$15,500 for individuals age 50 and older.

However, the payin limit for defined contribution plans goes up to $54,000.

And retirement plan contributions can be based on up to $270,000 of salary.

The 2017 payin limits for IRAs and Roth IRAs also stay steady at $5,500, plus $1,000 as an additional catch-up contribution for taxpayers age 50 and up.

Deduction phaseouts for regular IRAs start at higher levels in 2017, from $99,000 to $119,000 of AGI for couples and from $62,000 to $72,000 for singles. If only one spouse is covered by a plan, the phaseout zone for deducting a contribution for the uncovered spouse rises a bit. It starts at $186,000 of AGI and ends at $196,000.

The income ceilings on Roth IRA payins tick upward. They phase out at AGIs of $186,000 to $196,000 for couples and $118,000 to $133,000 for singles.

EXPIRED BREAKS Among the batch of business and individual tax breaks that expired on Jan. 1: The exclusion of up to $2 million of forgiven debt on primary residences. The credit for installing energy-efficient windows and exterior doors in one’s home. The write-off for private mortgage insurance. The 30% credit for geothermal heat pumps, wind turbines and fuel cell property. Credits for biodiesel and other alternative fuels as well as two-wheeled electric vehicles. Shorter depreciation lives for young racehorses. Plus accelerated expensing write-offs for some Broadway and film production costs.

There’s no guarantee that lawmakers will extend these provisions in 2017.

2017 is sure to be a tumultuous year...with tax reform talks continuing.

As always, we’ll be here to keep you up to date on all the changes that occur.

Yours very truly,

The Kiplinger Editors

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