10 Important Tax Rules and Changes for 2017

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–Debra Taylor, CPA/PFS, Esq., CDFA

With a new president in office, many expect sweeping tax reform this year. But until that happens, here are the current tax rules and changes that may affect your retirement contributions, health care expenses, and more.

2017 promises to be a year of change. Based on Trump's campaign promises and recent actions, we can expect substantial tax reform and a significant rollback of Obamacare in the first half of the year. We will address those changes as they come. In the meantime, here are the 10 most critical current tax rules and changes for 2017 that affect every high net worth taxpayer.

1. Income taxes

2017 income tax brackets have widened slightly due to inflation, but tax rates haven't changed.

The standard deduction did increase slightly:

- Married couples get $12,700, plus $1,250 for each spouse if age 65 and up.
- Singles get $6,350, and $7,900 (not surviving spouse) if age 65 and up.
- Heads of household get $9,350, plus $1,550 once they attain age 65.

Personal exemptions stay the same at $4,050 for taxpayers and dependents. However, PEP and Pease are two provisions in the tax code that increase taxable income for high income earners. As a phase-out of personal exemptions, PEP trims 2% for each $2,500 of adjusted gross income (AGI) over the threshold. Pease phases out the value of most itemized deductions once a taxpayer's AGI reaches the threshold amount, but the total reduction can't exceed 80% of itemized deductions.

The income threshold for both PEP and Pease will increase from last year to $261,500 for single filers and $318,800 for married couples filing jointly. PEP will end at $384,000 for singles and $436,300 for married couples filing jointly, meaning that taxpayers with AGI above those limits will no longer benefit from personal exemptions.

2. Dividend and capital gains tax rates were adjusted for inflation

Dividend and capital gains rates remain the same other than being adjusted for inflation.

Investors who are in the 39.6% income tax bracket will pay a 20% tax rate for qualified dividends and long-term capital gains. The 20% top rate on dividends and long-term gains stays the same, but begins for:

- Singles with taxable income above $418,400
- Heads of household with taxable income above $444,550
- Joint filers with taxable income above $470,700

If you fall above the 25% but below the 39.6% tax brackets, you will pay a 15% tax rate on qualified dividends and long-term gains. If you are in the 10% or 15% tax bracket, you will pay 0% tax on dividends and long-term capital gains.

Non-qualified dividends and ordinary income from taxable bonds are taxed at ordinary income tax rates.

3. IRA contributions always make sense when allowed

Contributions remain the same for 2017. For both traditional and Roth IRAs, you can contribute $5,500 if you are under age 50, with a limit of $6,500 if you are over age 50. Note that the deadline to make an IRA contribution is April 18, 2017 for tax year 2016.

There are income limits for being able to deduct traditional IRA contributions, and these income limits have increased for 2017 as follows:

- Singles and heads of household who contribute to a workplace retirement plan can claim a fully deductible contribution if their income falls below $62,000.
- For married couples, a spouse who contributes to a workplace retirement plan can claim a full deduction if their income falls below $99,000. The deduction phases out from $99,000 to $119,000. If you can't make a deductible IRA contribution, consider a non-deductible contribution.

Income limits pertaining to Roth IRA contributions have increased as follows:

- Single filers earning less than $118,000 can make a full Roth IRA contribution, but contributions are phased out for filers earning more than $133,000.
- Married couples can make a full contribution to a Roth IRA if their combined income is less than $186,000. However, they are ineligible to contribute if their income exceeds $196,000.

Tip: For higher-income investors, taking advantage of the backdoor Roth Conversion IRA could be ideal, but a high balance in retirement accounts will affect the taxation of the conversion.

Tip: For large accounts, consider converting a traditional IRA to a Roth soon after funding. Partial conversions may be an option if the tax bite is too big. With a potential lowering of tax rates, Roth conversions can start to make more sense again.

Tip: Make a donation to charity from your IRA required minimum distribution.

4. Maximize 401(k) contributions whenever possible

Contribution limits for 401(k), 403(b), and 457 plans haven't changed for 2017. If you are under age 50, there's a $18,000 contribution limit, with an additional $6,000 catch-up contribution limit if you are over age 50.

The cap on SIMPLE IRA plans remains at $12,500, and $15,500 for individuals age 50 and above. The base pay-in limit for defined contribution plans increased to $54,000.

Tip: Maximize pre-tax contributions whenever possible and always take advantage of the employee match.

5. Medical expense and long-term care deductions have increased

Limits for deducting long-term care premiums have gone up. Listed below is what you can write off based on your age:

- **Age 71.** $5,110.
- **Ages 61-70.** $4,090.
- **Ages 51-60.** $1,530.
- **Ages 41-50.** $770.
- **Age 40.** $410.

Tip: Consider bunching medical expenses to meet the AGI limitation. In addition, talk with your financial advisor about long-term care insurance, as health care expenses represent the single largest liability for almost every retiree.

6. Health savings accounts still provide nice perks and long-term opportunities

In 2017, any health care plan with a deductible above $1,300 for individuals and $2,600 for families classifies as a high-deductible plan. For single coverage, a contribution of $3,400 can be made to an HSA. For family coverage, a contribution of up to $6,750 can be made. If you are over age 55, you can make a catch-up contribution of $1,000 to an HSA.

Tip: HSA plans are funded with pretax contributions and allow for tax-advantaged savings, as the money grows tax-free. In addition, qualified withdrawals are considered tax-free.

As an extra bonus, if you don't use the money for health care, you can treat the account like an IRA at retirement and take qualified withdrawals that way. Amounts in the account not spent at death can transfer to a spouse on a tax-free basis.

7. Education savings can make a difference for parents and grandparents

You can contribute up to $14,000 annually to a 529 plan for a student without having the contribution count toward the gift tax.

Tip: An upfront contribution toward a 529 Savings Plan can be made up to $70,000 on behalf of an individual, but this method eliminates further contributions for the next five years. The contribution doesn't count toward gift tax.

Keep in mind that there is a lot of flexibility with these accounts, where the owner can transfer the funds to different family members. And if the account is not used, it can be transferred down to the next generation, which is great for estate planning purposes.

8. How estate taxes may affect you

The lifetime exclusion amount for the estate tax increased to $5.49 million per individual and portability is still available. The highest gift and estate tax rate is 40%.

If you incur heavy estate tax liability, you may qualify for an installment payment tax break. If one or more closely held businesses make up greater than 35% of an estate, $596,000 of tax can be deferred, and the IRS will charge only a 2% interest rate.

9. Good news for small businesses

Small businesses can once again use pretax funds to reimburse workers for health care costs, especially premiums for individual and family coverage. In a little-noticed move, Congress late last year reauthorized Health Reimbursement Arrangements for businesses with fewer than 50 employees.

As a result, these firms won't risk large penalties on payments they provide to workers who purchase their own health insurance. Many of these firms don't offer group health plans, and this law enables them still to offer a health care benefit.

10. Filing deadlines have changed

The filing deadline to submit 2016 tax returns is Tuesday, April 18, 2017, rather than the traditional April 15 date. In 2017, April 15 falls on a Saturday, and this would usually move the filing deadline to the following Monday – April 17. However,
Emancipation Day, which is a legal holiday in the District of Columbia, will be observed on that Monday, pushing the nation's filing deadline to Tuesday, April 18, 2017.

You are able to request an additional six months to file your return.

Employers are required to file W-2s with the federal government by January 31.

Returns of partnerships are due 2 ½ months after year-end, and March 15 for calendar year firms. Corporations can request a five-month extension.

The filing date for owners of foreign accounts has moved up to April 18.

There is one thing that we can count on: this year is sure to be filled with surprises. We will keep you updated once these changes surface. Meanwhile, make sure to consult your financial and tax advisors on current tax laws and strategies most suitable for your specific situation.

Debra Taylor, CPA/PFS, Esq., CDFA, writes on tax and retirement planning for Horsesmouth, an independent organization provding unbiased insight into the critical issues facing financial advisors and their clients.