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A GUIDE TO 2017 TAX LAW CHANGES (AND MORE)

PROVIDED BY DENVER PRIVATE WEALTH MANAGEMENT

As it stands now, federal tax laws are changing little in 2017. The 2015 Protecting Americans from Tax Hikes (PATH) Act extended many tax breaks, which were set to expire in 2015, through at least 2018 and made others permanent (the $500,000 Section 179 deduction, charitable IRA gifts, the R&D tax credit, and more).

Still, there are some important things to note this tax season. This guide reviews:

- **Social Security & Medicare changes** (minor, but certainly worth knowing about)
- **Notable COLAs** (and tax items not given a 2017 COLA)
- **Phase-Out Range Adjustments for 2017** (there are many)
- A look at the **key tax breaks that expired in 2016** (several went away)
- Last, but not least, some **other interesting developments**

Just a reminder as you read this guide: you should consult with a qualified tax or financial professional before making short-term or long-term changes to your tax or financial strategy.

SOCIAL SECURITY & MEDICARE CHANGES

1. Social Security benefits rise by 0.3% this year.

Any little increase is welcome for the nation's seniors, who have lived without Social Security COLAs for three of the past nine years.

For the record, this pushes the maximum monthly benefit for someone claiming Social Security at age 66 to $2,687; the maximum monthly benefit for a senior claiming at age 62 becomes $2,153, a $45 increase from 2016. The average monthly Social Security payment will rise by a little more than $4 to $1,360.[4,5]

2. Social Security's Full Retirement Age (FRA) increases in 2017 for those newly eligible for benefits.

For Americans born in the years 1943-1954, the FRA is 66. Americans born in 1955 will turn 62 this year, and the FRA for them is 66 years and 2 months. In 2018, the FRA will rise to 66 years and 4 months for those born in 1956, and it will increase in 2019 to 66 years and 6 months for those born in 1957. The incremental increases will continue until the FRA becomes frozen at age 67 in 2022.[4,5]

3. The Social Security withholding thresholds have risen.

Before and during the year you reach Full Retirement Age, Social Security withholds some of your benefits when your earned income surpasses certain thresholds.

If you have yet to reach your FRA, you may earn up to $16,920 in 2017 before having $1 in benefits withheld for each additional $2 in earned income above that level (a level that has increased by $1,200).

If you reach your FRA in 2017, you may earn as much as $44,880 before having $1 in benefits withheld for each additional $3 in earned income above that level (a level that has increased by $3,000).[5]

4. Medicare Part B premiums have risen.

Since the 2017 COLA for Social Security is so small, the hold-harmless provision kicks in for the majority of Medicare recipients this year. The average Medicare recipient who has been receiving benefits for more than two years will pay Part B premiums of about $109 per month in 2017, as opposed to $104.90 in 2016.

Are you newly enrolled in Medicare? Are you enrolled in Medicare, but receive no Social Security benefits? Do you have your Part B premiums paid by your state's Medicaid program? If the answer is yes to any of those three questions, your monthly 2017 Part B premium is $134, as opposed to $121.80 last year.

Certain higher-income Medicare beneficiaries will pay larger Part B premiums reflecting a surcharge. This applies to single filers with MAGI above $85,000 and joint filers with MAGI above $170,000. If you find yourself in this group, you will pay monthly Part B premiums of somewhere between $187.50-$428.60 this year (up from $170.50-$389.80 in 2016). A monthly surcharge of $13.30-$76.20 will also be added to your Part D premiums for drug coverage (in 2016, that monthly surcharge ranged from $12.70-$72.90).[6]

5. Medicare Part A & Part B deductibles have also increased.

In 2017, the Part A deductible (on hospital stays) is $1,316, which is $28 higher than in 2016. The yearly Part B deductible is $17 higher at $183.[6]

NOTABLE COLAS

6. Cost-of-living adjustments have been made to retirement savings accounts, health savings accounts, and basic Form 1040 items.

***Income Tax Brackets**
They rise just slightly for 2017, as follows:

Bracket	Single Filers	Married Filing Jointly or Qualifying Widower	Married Filing Separately	Head of Household
10%	$1 - $9,325	$1 - $18,650	$1 - $9,325	$1 - $13,350
15%	$9,326 - $37,950	$18,651 - $75,900	$9,326 - $37,950	$13,351 - $50,800
25%	$37,951 - $91,900	$75,901 - $153,100	$37,951 - $76,550	$50,801 - $131,200
28%	$91,901 - $191,650	$153,101 - $233,350	$76,551 - $116,675	$131,201 - $212,500
33%	$191,651 - $416,700	$233,351 - $416,700	$116,676 - $208,350	$212,501 - $416,700
35%	$416,701 - $418,400	$416,701 - $470,700	$208,351 - $235,350	$416,701 - $444,550
39.6%	$418,401 and more	$470,701 and more	$235,351 and more	$444,551 and more

A reminder: these tax brackets are based on your taxable income rather than your gross income.[7]

***Standard Deduction**

This year, it rises as follows:

*Single filer or married filing separately: $6,350 ($50 higher than in 2016)
*Head of household: $9,350 ($50 higher than in 2016)
*Married couples filing jointly: $12,700 ($100 higher than in 2016)

In 2017, the additional standard deduction for the blind or aged is $1,250, $1,550 if the taxpayer is single without being a surviving spouse.[7]

***Unified Credit**

The portable lifetime individual gift and estate tax exemption rises by $40,000 in 2017 to $5.49 million. For married couples, the credit is $10.98 million.[8]

***Earned Income Tax Credit**

The maximum credit for families having three or more qualifying children is $6,318 in 2017.[7]

***Adoption Credit**

In 2017, the ceiling on this credit is $13,570. If you are adopting a child with qualifying special needs, you can claim the full $13,570 credit. Your income may affect your eligibility for this credit, though. The credit you can potentially claim may be reduced if your MAGI surpasses $203,540; if your MAGI is $243,540 or greater, you are ineligible.[7]

***Limit on Income Subject to Social Security Tax**

In 2017, the taxable wage base rises to $127,200, compared to $118,500 in both 2015 and 2016. That $127,200 figure represents the maximum amount of earned income upon which a worker has to pay Social Security taxes.[9]

***Alternative Minimum Tax Exemption**

The new inflation-adjusted exemption amounts for 2017 are:

***Single filer: $54,300**
*Married couples filing separately: $42,250
*Married couples filing jointly & surviving spouses: $84,500
*Trusts & estates: $24,1007

***Defined Contribution Plan Annual Addition Limit**

Last year, the cap on annual employer profit-sharing additions to these plans was set at $53,000. It becomes $54,000 for 2017.[11]

***SEP Plan Contribution Limits**

This year, the limit on employer contributions to a SEP plan rise. An employer can contribute up to $54,000 or up to 25% of eligible compensation per employee (up to a cap of $270,000). Last year, the caps were set at $53,000 and $265,000. The minimum compensation level stays at $600.[9]

***Health Savings Account Contribution Limits (self-only policies)**

The yearly contribution limit for a self-only policy increases $50 this year to $3,400. (An additional $1,000 catch-up contribution is allowed for those who will be 55 and older in 2017.) There is no change to the contribution limit on family policies this year.[10]

***Maximum Out-of-Pocket Amounts for Medical Savings Accounts**
The 2017 caps are $4,500 for self-only coverage (a $50 increase) and $8,250 for family coverage (a $100 increase).[12]

***Maximum Out-of-Pocket Amounts for Health Plans Compliant with the Affordable Care Act**
In 2017, the new limits are $7,150 for individuals, $14,300 for families. Last year, these limits were set at $6,850 for individuals, $13,700 for families.[10]

***Annual Retirement Benefit Payable from a Defined Benefit Plan**
In 2017, the cap is $215,000; last year, it was $210,000.[11]

***Amount for Lengthening of 5-Year ESOP Period**
This also rises by $5,000 this year to $215,000.[11]

***Limit on ESOP Maximum Balance**
This increases by $10,000 in 2017 to $1,080,000.[9]

***Definition of a Key Employee**
Last year, the dollar limitation linked to the definition of a key employee in a top-heavy plan was $170,000. In 2017, it rises to $175,000.[9]

***Foreign Earned Income Exclusion**
Set at $102,100 for 2017, it was at $101,300 last year.[12]

PHASE-OUT RANGE ADJUSTMENTS FOR 2017

7. Some phase-out brackets have been adjusted higher for inflation.

***Personal Exemption**
Here are the adjusted gross income (AGI) phase-out ranges for 2017 (above the top end of these ranges, the personal exemption may not be claimed):

***Single filer: $261,500-$384,000**
*Married couples filing jointly: $313,800-$436,3007

***Pease Limitations on Itemized Deductions**
The phase-out ranges are increasing this year:

*Single filer: phase-outs begin at $261,500
*Married couples filing separately: phase-outs begin at $156,900
*Head of household: phase-outs begin at $287,650
*Married couples filing jointly & surviving spouses: phase-outs begin at $313,800

When taxpayer incomes pass the Pease thresholds, the total of a taxpayer's itemized deductions are reduced either by 3% of the AGI exceeding the relevant threshold, or by 80% of the amount of itemized deductions otherwise permitted for TY 2017.

Deductions for charitable donations and state and local tax deductions may be reduced by Pease limitations. Pease limitations do not impact deductions for medical expenses, investment expenses, some property and casualty losses, and gambling losses.[7]

***Alternative Minimum Tax**
The AMT starts to phase out for taxpayers at the following levels this year:

*Single filer: $120,700
*Married couples filing jointly: $160,900

The AMT's 28% tax rate applies if taxpayers have taxable income above these thresholds:

*Married couples filing separately: $93,900
*All other taxpayers: $187,80012

***IRA Contribution Deductions When You or Your Spouse Has Access to a Retirement Plan at Work**
In 2017, the MAGI phase-out ranges are:

*Single filer or head of household: $62,000-$72,000 ($1,000 higher)
*Married couples filing jointly: $99,000-$119,000 ($1,000 higher)
*Married couples filing separately: $0-$10,000 (it never changes)

Below the phase-out ranges, you may claim a dollar-for-dollar deduction for contributions to a traditional (i.e., deductible) IRA. These are not phase-outs affecting the amount of your traditional IRA contributions. They only affect the amount of the deduction you may take on your 1040 form for making them in 2017.[13]

***IRA Contributions if You Lack Access to a Workplace Retirement Plan, but Your Spouse Has Access to Such a Plan**
The increase in the most important of the two MAGI phase-out ranges here is slight, but notable.

*Married couples filing jointly: $186,000-$196,000 ($2,000 higher)
*Married couples filing separately: $0-$10,000 (it never changes)[13]

***Roth IRA Contributions**
Your ability to make a 2017 Roth IRA contribution is reduced when your MAGI falls into these phase-out ranges. If it exceeds the high end of these ranges, you cannot make a 2017 Roth IRA contribution.
*Single filer or head of household: $118,000-$133,000 ($1,000 higher)
*Married couples filing jointly: $186,000-$196,000 ($2,000 higher)
*Married couples filing separately: $0-$10,000 (it never changes)[13]

***Lifetime Learning Credit**
This year, the phase-out ranges start slightly higher: $56,000 for single filers, $112,000 for joint filers.[7]

KEY TAX BREAKS THAT EXPIRED IN 2016

Unless legislators move to retroactively reinstate these federal tax perks, we have seen the last of them. (Perhaps you can claim them on your 2016 return.)

8. Alternative Motor Vehicle Tax Credit

Last year, taxpayers who bought new fuel-cell cars and SUVs could claim a 2016 federal tax credit based on the make and model of their vehicle. (They had to buy the vehicle, not lease it.) No more.[14,15]

9. Qualified Plug-In Electric Drive Motor Vehicle Tax Credit

This credit was linked to the purchase of new e-bikes (driven by electric motors) with batteries that could be plugged in and recharged through an external source of electricity.[14]

10. Itemized Deduction for Mortgage Interest Premiums

Homeowners could itemize payments for either home loan interest or mortgage insurance premiums in 2016. This year, they cannot.[14]

11. Mortgage Debt Forgiveness Deduction

Forgiven or cancelled debt is usually taxable. In response to the mortgage crisis of the late 2000s, Congress passed legislation letting financially troubled homeowners have a tax break on forgiven or reduced mortgage debt that would ordinarily be taxed. Up to $2 million of such debt on a principal residence could be excluded from taxation thanks to this break. With the mortgage crisis in the rear-view mirror, the deduction has been allowed to disappear.[15]

12. Medical Expense Deduction Starting at 7.5% of AGI for Individuals Ages 65 & Older (and Spouses)

The actual deduction opportunity hasn't disappeared, but the threshold to claim the medical expenses deduction is higher in 2017. In 2016, taxpayers 65 or older could claim this deduction if their qualified medical expenses were greater than 7.5% of their adjusted gross income. Now, it can only be claimed when these expenses exceed 10% of AGI.[16]

13. Nonbusiness Energy Property Credit

This was a 10% credit for the price of energy-efficient home improvement products that cost between $50-$500. The credit had a $500 lifetime limit and could be applied only to products bought for a taxpayer's existing, primary residence.[14,15]

14. Tuition & Fees Deduction

This was an above-the-line deduction that could be taken even when a taxpayer didn't itemize. It could be as large as $4,000 and could be claimed for any qualifying tuition and fees you paid for yourself, your spouse, or a dependent. Even if those expenses were paid for with a student loan, the deduction could still be claimed. This deduction (which was subject to phase-outs at higher income levels) could be claimed instead of the American Opportunity Credit or the Lifetime Learning Credit.[14,15,16]

OTHER INTERESTING DEVELOPMENTS

15. 50% bonus depreciation will end this year.

Businesses will soon see a gradual phase-out for immediate expensing of assets they acquire. In 2017, a company can still take a 50% bonus depreciation deduction, but the ceiling on the deduction lowers to 40% in 2018 and 30% in 2019. As it stands now, this deduction is slated to disappear in 2020. Whether it is extended past that date or not, its oncoming phase-out could significantly impact taxable income and cash flow at businesses. Of course, a company could elect to use the

Section 179 deduction for new and used equipment, which has a $500,000 yearly limit.[17]

16. The IRS will wait until February 15 to process any refunds due to taxpayers claiming the Earned Income Tax Credit (EITC) or refundable Additional Child Tax Credit (ADTC) for TY 2016.

Taxpayers with lower incomes may be eligible to claim the EITC. When the standard Child Tax Credit (CTC) surpasses a person's federal tax liability, that person may claim the refundable ADTC in response (which can be as large as $1,000). Claiming either of these credits for 2016 makes it extremely unlikely that your 2016 refund will reach you before the end of February.[1]

17. Taxpayers without health coverage may or may not have to pay an individual penalty in 2017.

In an executive order signed on January 20, President Donald Trump called for departments of the federal government to "waive, defer, grant exemptions from, or delay the implementation" of provisions of the Affordable Care Act placing financial penalties on states, businesses, or individual taxpayers. This was widely interpreted as a directive to jettison the individual penalty for not having health coverage as well as other penalties linked to avoidance of the ACA's regulations. When 2017 began, the individual taxpayer penalty for going without minimum essential health coverage was either 2.5% of a taxpayer's household income or $695, whichever was higher. If the Trump administration follows through on its intention to replace the ACA in 2017, the individual health insurance mandate (and the penalties resulting from foregoing health insurance coverage) may vanish this year.[18,19]

18. Vehicle mileage rates are decreasing slightly.

Last year, a taxpayer who used some kind of automobile for business, medical, or charitable purposes, or for a move could deduct $0.54 per mile for business miles, $0.19 for moving miles and miles driven for medical purposes, and $0.14 per mile when driving in the service of a qualified charity. This year, the rates are $0.535 for business miles, $0.17 for moving and medical miles, and $0.14 for charity miles.[20]

19. 2017 may mark the last year for the suspension of the 2.3% excise tax on medical devices.

Medical device manufacturers may not have to worry about this tax coming back. It may disappear altogether in 2018, as lawmakers in both the House of Representatives and Senate introduced bills in January to repeal it. The tax was first waived in 2016.[21]

20. Some taxpayers who haven't filed a Form 1040 recently may need new Individual Taxpayer ID Numbers.

Usually, a Social Security Number functions as an ITIN. Some U.S. residents do not have SSNs, yet still file federal taxes. They are issued ITINs, which are not SSNs.

When the 2015 Protecting Americans from Tax Hikes (PATH) Act became law, it established that an ITIN will expire for these taxpayers if they go three years without filing a federal return or being listed as a dependent on another individual's federal return. So, if a taxpayer's ITIN hasn't been used on a 1040 form at least once in 2014, 2015, or 2016, he or she will have to get a new one in 2017 to file a federal tax return for this year. Taxpayers in this category who were issued an ITIN prior to 2013 will be asked to renew that ITIN sometime during 2017-2020.[16]

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