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Subject: 2016/2017 Tax Update

Dear Clients and Friends,

TAX REFORM MOVEMENT BY CONGRESS AND INCOMING ADMINISTRATION CLOUDS MANY PROVISIONS FOR 2017, BUT PROVIDES ADDITIONAL TAX SAVING OPPORTUNITIES FOR 2016

Post-election expectations that tax reform legislation in 2017 will produce lower individual and business tax rates and reduce, revise or eliminate some currently available deductions and credits increase the likelihood of overall tax savings being achievable for upper and middle income taxpayers by taxpayers deferring discretionary income from 2016 to 2017 and accelerating write-offs from 2017 to 2016. This consensus advice is of course complicated by some taxpayers' concerns about earnings level impact on health insurance costs and social security and tax credit benefits, plus the lack of any guarantee of tax reform in 2017.

Some specific individual tax change ideas floated for future changes by key players to date of note include consolidation of individual tax rates to three (eg. 12% 25% and 33%) instead of seven with top rate of 39.6% now, elimination of the 3.8% net investment income Medicare surtax imposed on higher income taxpayers (with proposed repeal of Affordable Care Act), reduced and progressive tax rates on investment income, increase of standard deduction (with possible elimination of personal exemptions), larger child and dependent care credits/benefits, elimination of itemized deductions other than mortgage interest and charitable deductions, elimination of alternative minimum tax (AMT), simplification of education benefits, and elimination of estate taxes (with possible taxation of unrealized capital gains on large estate assets).
Business provisions proposed include reduction of the maximum rate from 35% to 15% or 20%, possible creation of a new small business tax rate applicable to pass-through entities, expending for business investments (along with changing allowance for interest expense deductibility), increasing benefits of providing child care, elimination of business AMT, deemed repatriation of offshore corporate profits at a one-time tax rate of 10%, and simplifying international tax rules by changing that tax system and moving toward a consumption-based approach.

Congress granted extensions of a large number of tax breaks previously scheduled to expire for 2015. Several now have permanent extensions and include modifications, some were extended five years through 2019, and others have been extended for 2015 and 2016 only:

SAMPLE OF EXTENDED TAX INCENTIVES

PERMANENT EXTENDERS include **Child Tax Credit**; **American Opportunity Tax Credit**; **Enhanced Earned Income Credit**; **limited deduction for certain state and local general sales tax deduction in lieu of state and local income tax deduction**; **limited deduction for certain expenses of elementary and secondary classroom teachers (to $250 indexed for inflation beginning 2016, (with deduction remaining $250 through 2017)**; **modified exclusions for employer paid parking and transit expenses ($255 each in 2016; and 2017)**; **charitable deductions of qualified donations of capital gain real property for conservation**; **allowing taxpayers at least 70-1/2 years old to make up to $100,000 in charitable contributions from IRAs without including the distributions in income**; **increased the $500,000 expensing limit for section 179 business property placed in service beginning 2015 ($500,000 in 2016 and $510,000 in 2017)** with $2,010,000 inflation adjusted phase-out threshold in 2015 and 2016 ($2,030,000 in 2017) **with air conditioning and heating unit costs eligible beginning in 2016**; S corporations may reduce basis of stock by basis in donated property (vs. fair market value); **R&D tax credit** with credit against AMT tax for **businesses** with no more than $50,000,000 gross receipts beginning in 2016 with certain entities eligible to claim credit against payroll taxes; **employer wage credit** of up to 20% of eligible differential wage **payments to eligible employees** while serving **on active duty** in uniformed services; 15-year straight-line expensing of **qualified leasehold, restaurant and retail improvement property**; **reduced built-in gains tax recognition by S corporations** to five years; and 100% gain exclusion for qualified small business stock is made permanent.

FIVE-YEAR EXTENSIONS THROUGH 2019 include **50% bonus depreciation** of adjusted basis of qualifying business property in the first year it is placed in service (phased down to 40% in 2018 and 30% in 2019), now including "qualified improvement property" and certain trees, vines and fruit bearing plants eligible when planted or grafted, and modifying AMT rules to increase unused credits claimed in lieu of bonus depreciation; **Work Opportunity Credit (WOTC)** for employers hiring qualified veterans and employees from other targeted groups approved in advance **and modifies the credit to** apply to **all employers hiring qualified employees who have been unemployed for at least 27 weeks** while increasing the **credit to 40% of the first $6,000 of wages**; and the **new markets tax credit for investments in businesses or real estate in low income communities.**

TWO-YEAR EXTENSION WAS APPROVED THROUGH 2016 for: gross income exclusion of qualified indebtedness income from a qualified principal residence; deduction of qualifying mortgage insurance premiums as qualified residence interest for taxpayers below limited income thresholds; and expensing up to $4,000 tuition paid "above the line" for taxpayers within limited income ranges (see information in "Education Credits" section below) for individuals. A multitude of specialized business and energy tax incentives were extended for two years through 2016.

CONTINUING TAX CONSIDERATIONS

Earlier Deadline for Foreign Account and Income Reporting:

Foreign accounts valued at $10,000 or more in the year at any time **in 2016 must be reported by April 15, 2017, which may be extended with extension available to October 15, 2017. Guidance is needed from IRS, which may waive penalties for failure to file a timely extension. File online** at **www.fincen.gov; Foreign bank account report** FinCEN **Form 114**. I suggest that you do so much earlier since no extension is available and penalty is large. **If required to file you must state so on your tax return Schedule B, where you must affirm whether you have an interest in a foreign account or trust. The reporting deadline for 2017** will be April 15, 2018, with extension available to October 15, 2018.

CONTINUING TAX CONSIDERATIONS

Additionally, there is an **income tax Form 8938, required for reporting specified foreign financial interests** on your tax return. Threshold fair market value totals for that reporting to the IRS on your tax return are:

	FMV at year-end	or	FMV at anytime during the year
Single/married filing separately	$ 50,000		$ 75,000
Married filing jointly	$100,000		$150,000
Single/married filing separately living abroad	$200,000		$300,000
Married filing jointly living abroad	$400,000		$600,000

In addition to penalties for not reporting foreign income earned, there are most egregious penalty levels assessed for not reporting foreign accounts or financial interests or filing required forms on time, annually. Willful violation penalty is the greater of $100,000 or 50% of account value. Otherwise, penalty is $10,000.

HealthCare Coverage Responsibility:

For the third year, all non-exempt individuals must have health insurance coverage or make a penalty payment with their tax return. Taxpayers having qualifying health care coverage (called minimal essential coverage) in every month in 2016 for themselves and anyone they could or did claim as a dependent need only check the return box indicating that. Otherwise Form 8965 (Health Coverage Exemptions) must be filed to claim a coverage exemption. If not entitled, there is an instruction worksheet for Form 8965 (Shared Responsibility Payment Worksheet) to compute the penalty to be reported on Form 1040 line 61. Non-exempt members of the household not having minimum essential coverage face potential annual payment for 2016 to the greater of:

1) 2.5% of household income that is above the tax return filing threshold for the taxpayer's status or:
2) A flat dollar amount of $695 per family member for 2016 and 2017 limited to a family maximum of three times the flat dollar amount.

However, the payment is capped at cost of the national average premium for a bronze level health plan available through the Marketplace (www.Healthcare.gov): $223 per individual per month or $2,676 per individual per year ($1,115 per month for a shared responsibility family of five or more members). Taxpayers will owe 1/12 of the annual payment for each month they or other household members don't have coverage or an exemption. Coverage for even a day within a month qualifies as coverage that month.

Exemptions include individuals who have no affordable options because the minimum amount to be paid for annual premiums exceeds 8.13% of household income, have a gap in coverage of less than three consecutive months, or qualifies for exemption for one of several other reasons including having a hardship which prevents obtaining coverage or belonging to a group exempt from coverage.

Advanced premium tax credits are reported by recipients to reconcile eligibility on Form 8962, with excess premium credits carried to line 46 on Form 1040 for repayment.

Achieving a Better Life Experience (ABLE) Act of 2014:

A Sec. 529 "ABLE" account may be established for tax years after 2014 with a qualified ABLE program established by a State or agency or instrumentality thereof **to accept limited contributions from individuals and family members for a designated disabled beneficiary** who is properly certified by the State as becoming **disabled before age 26 for** the purpose of their **support with payment of qualified expenses**. It is meant to supplement, not supplant, insurance, Medicaid, SSI, the beneficiary's employment or other sources and is exempt from taxation (except unrelated business income tax). Total contributions must be limited to the annual gift tax exclusion for the year. Rollover provisions, taxes and penalties on unqualified distributions will be similar to Sec. 529 education accounts, and accounts include reporting provisions.

Tax Rates, Deductions and Limits

See the following tax rates, deductions and limits below for 2016 and 2017, listing some provisions of common interest. Please consult for applicability in your circumstances.

Mileage Rates:	2017 (Note: subject to change)	2016
Business Auto Use	53.5 cents/mi.	54 cents/mi.
Amount of bus. mileage rate treated as depreciation	23 cents/mi.	24 cents/mi.
Medical and Moving Use	17 cents/mi.	19 cents/mi.
Charitable use	14 cents/mi.	14 cents/mi.

Estate and Gift Tax Unified Exclusion:	$5,490,000	$5,450,000
Highest rate	40% (at $1,000,000)	40% (at $1,000,000)
Annual Taxable Non-Spouse Gift Exclusion/per donee	$ 14,000	$ 14,000
With maximum annual exclusion to non-U.S. citizen spouse:	$ 149,000	$ 148,000
And unlimited exclusion to U.S. citizen spouse		

Social Security (for 2015 and 2016):		
FICA Taxable Wage Base (no limit on Medicare tax)	$ 127,200	$ 118,500
Maximum earnings to still receive Full Retirement Benefit:		
Under Full Retirement Age (FRA) ($1 benefit withheld for each $2 above)	$ 16,920	$ 15,720
Year FRA attained to month FRA reached ($1 benefit withheld for each $3 above)	$ 44,880	$ 41,880
Earnings limit after FRA	No Limit	No Limit
Earnings needed to earn credit for one quarter of coverage	$ 1,300	$ 1,260
Maximum of four credits a year	$ 5,200	$ 5,040
Cost of Living Adjustment	.3%	0%

Kiddie Tax on unearned income at parent's highest rate (1st $1,050 exempt; 2nd $1,050 at child's rate)	$ 2,100	$ 2,100
Child Tax Credit	$ 1,000	$ 1,000
Modified AGI phase-out begins:		
Married filing jointly	$ 110,000	$ 110,000
Married filing separately	$ 55,000	$ 55,000
All others	$ 75,000	$ 75,000
(credit is refundable for taxpayers with more than $3,000 of earned income)		

Tax Rates, Deductions and Limits (continued)

IRA:	2017	2016
Base Contribution	$ 5,500	$ 5,500
Age 50 Catch Up Contribution	$ 1,000	$ 1,000
Deductible IRA Phase-out:		
Joint Filer-plan participant	$ 99,000-$119,000	$ 98,000-$118,000
Joint Filer-not a plan participant married to a plan participant	$186,000-$196,000	$184,000-$194,000
Single/HOH plan participant	$ 62,000-$72,000	$ 61,000-$71,000
MFS-lived with spouse during the year	$ 0-$10,000	$0-$10,000
Roth IRA Phase-out:		
Married Filing Jointly	$186,000-$196,000	$184,000-$194,000
Single/HOH	$118,000-$133,000	$117,000-$132,000
Married Filing Separately	$ 0-$10,000	$0-$10,000

Important note of new rollover restriction - only one rollover in any 12-month period from any IRA account of taxpayer (may do multiple direct transfers, however.)

Simple IRA:	2017	2016
Base Contribution	$ 12,500	$ 12,500
Age 50 Catch-Up	$ 3,000	$ 3,000
401(k), 403(b), and 457 Plans:		
Base Contribution	$ 18,000	$ 18,000
Age 50 Catch-Up	$ 6,000	$ 6,000
Profit-Sharing Plan/SEP Contribution Limit	$ 54,000	$ 53,000
Annual Compensation Limit for Profit-Sharing and SEP Contributions	$ 270,000	$ 265,000
Defined Benefit Plan Annual Contribution Limit	$ 215,000	$ 210,000
Personal Exemptions (none for dependent child claimed by parent)	$ 4,050	$ 4,050

Personal Exemption Phase-Out (PEP):
2% for each $2,500 (or fraction thereof) by which AGI exceeds following threshold/**complete AGI**

PEP Phase-out income levels (continued):

	2017	2016
Joint Filers and Qualified Widows	$313,800-$436,300	$311,300-$433,800
Single Filers	$261,500-$384,000	$259,400-$380,750
Heads of Household	$287,650-$410,150	$285,350-$407,850
Married Filing Separately: (each $1,250 bracket, vs. $2,500)	$156,900-$218,150	$155,650-$216,900

Reduction in Itemized Deductions (Pease Limitation)
By 3% of excess of AGI over amounts above, up to 80% of itemized deductions otherwise available (same beginning thresholds as PEP above)

Tax Rates, Deductions and Limits (continued)

Standard Deduction:	2017	2016
Single	$ 6,350	$ 6,300
Married Filing Jointly and Qualified Widower	$ 12,700	$ 12,600
Married Filing Separately	$ 6,350	$ 6,300
Head of Household	$ 9,350	$ 9,300
Additional Deduction for Elderly and Blind:		
Single and Heads of Household	$ 1,550	$ 1,550
Married and Surviving Spouses	$ 1,250	$ 1,250
Dependent of Another: Greater of ($XXX) or ($XXX plus earned income) not to exceed the regular standard deduction (plus $1,550 for blind dependent)	$1,050/$350	$1,050/$350

Earned Income Credit:	2017 Earned Inc/ AGI Less Than	2017 Max Credit	2016* Earned Inc/ AGI Less Than	2016* Max Credit
No Qualifying Children	$15,010 ($20,600 MFJ)	$ 510	$14,880 ($20,430 MFJ)	$ 506
1 Qualifying Child	$39,617 ($45,207 MFJ)	$3,400	$39,296 ($44,846 MFJ)	$3,373
2 Qualifying Children	$45,007 ($50,597 MFJ)	$5,616	$44,648 ($50,198 MFJ)	$5,572
3 or More Children	$48,340 ($53,930 MFJ)	$6,242	$47,955 ($53,505 MFJ)	$6,269

(MFS does not qualify; Investment income limit = $3,400 in 2016; $3,450 in 2017)
*Phase-out range is indexed for inflation after 2015 per extender legislation.

Education Credits:

American Opportunity Credit (AOC) (before 2018):

Credits are available for the first four years of qualifying undergraduate higher education tuition and fees required for attendance at accredited institutions for each qualified taxpayer, spouse, and dependent (see phase-out modified AGI limits) for both 2016 and 2017:

Up to 100% of first	$2,000
25% of next	$2,000
Phase-out range:	$160-$180,000 MFJ; $80,000-$90,000 Others; (None for MFS) 2016 and 2017

Note: Taxpayers claiming the AOC credit must report the employer identification number of the educational institution paid beginning in 2016.

Lifetime Learning Credit:

Only one credit per taxpayer (not combined with AOC for student)	2017	2016
20% of up to	$10,000	$10,000
Phase-out range:	$112,000-$132,000 MFJ	$111,000-$131,000 MFJ
(None for MFS)	$56,000-$66,000 for All Others	$55,000-$65,000 for All Others

Tax Rates, Deductions and Limits (continued)

Optional "above the line" deductions of up to $4,000 paid tuition
for taxpayers whose modified AGI doesn't exceed $65,000 ($130,000 for MFJ) or $2,000 for taxpayers with modified AGI exceeding $65,000 ($130,000 for MFJ) but doesn't exceed $80,000 ($160,000 for MFJ) in 2015 and 2016.

	2017	2016
Foreign Earned Income Exclusion	$102,700	$101,300
Foreign housing costs between 16% and 30% of excluded amount can also be excluded to maximum (increased in high-cost localities) amounts of	$ 14,378	$ 14,182

Alternative Minimum Tax:	2017 Exemption/Phase-Out	2016 Exemption/Phase-Out
Married Filing Jointly or Qualified Widow/less 25% of AMTI in phase-out	$84,500/$160,900-$498,900	$83,800/$159,700-$494,900
Single or HOH/less 25% of AMTI in phase-out	$54,300/$120,700-$337,900	$53,900/$119,700-$335,300
Married Filing Separately/less 25% of AMTI in phase-out	$42,250/$80,450-$249,450	$41,900/$79,850-$247,450

28% Rate Applied to Excess Taxable Income (AMTI Minus Exemption) over:
$93,150 in 2016 for Marrieds Filing Separately and $186,300 in 2016 ($187,800 for 2017) for all other filers.

Section 179 Write-Off of Qualified Business Assets in Service in Acquisition Year Against Income:	2017	2016
Overall limit	$ 510,000	$ 500,000
SUV limit/vehicle	$ 25,000	$ 25,000
Qualifying property phase-out	$2,030,000	$2,010,000

Note: Air conditioning and heating units placed in service after 2015 qualify. The $250,000 cap on qualified real property is eliminated in 2016.

Note: Trade or business entities may elect a De Minimis amount for expensing vs. capitalizing tangible assets of $2,500 per item or invoice ($5,000 for those required to submit audited financial statements to an applicable governing body) on a timely filed return in each year of applicability per IRS Notice 2015-82 (avoiding recapture of 179 in year business use declines below 50%) though reconciliation must be made for non-conforming state reporting (such as Florida tangible tax).

Health Savings Account (HSA) Limitations:	2017	2016
Self-Plan	$ 3,400	$ 3,350
Family-Plan	$ 6,750	$ 6,700
Age 55 Catch Up	$ 1,000	$ 1,000
Minimum Deductible - Self-Plan	$ 1,300	$ 1,300
Minimum Deductible - Family-Plan	$ 2,600	$ 2,600
Maximum Deductible - Self-Plan	$ 6,550	$ 6,550
Maximum Deductible - Family-Plan	$ 13,100	$ 13,100

Flexible Spending Arrangement (FSA) – Limit of voluntary employee salary reduction for contributions to cafeteria plan	$ 2,600	$ 2,550

Long-Term Care Deduction Limitations:		
Age 40 or younger	$ 410	$ 390
Age > 40 but < 50	$ 770	$ 730
Age > 50 but < 60	$ 1,530	$ 1,460
Age > 60 but < 70	$ 4,090	$ 3,900
Age > 70	$ 5,110	$ 4,870

Student Loan Interest Deduction:

Maximum (2016 and 2017) $2,500

With modified AGI phase-outs of 2016 - $130,000-$160,000 for MFJ; $65,000-$80,000 for All Others

2017 - $135,000-$165,000 for MFJ; $65,000-$80,000 for All Others

EE and I Series Savings Bond Interest Income is Excluded to extent proceeds are used to pay higher education costs not in excess of qualified expenses with modified AGI phase-outs:	2017	2016
	$117,250-$147,250 MFJ	$116,300-$146,300 MFJ
	$78,150-$93,150 S & HOH	$77,550-$92,500 S & HOH
	None for MFS	None for MFS

Retirement Saver's Non-Refundable Credit: may be available to lower income contributors for IRA and Qualified Elective Retirement Plan contributions for a percentage of up to $2,000 based on modified AGI ranges as follows:

Applicable Percentage	Filing Status	2017	2016
50%	MFJ	$0-$37,000	$0-$37,000
	HOH	$0-$27,750	$0-$27,750
	S; MFS; QW	$0-$18,500	$0-$18,500
20%	MFJ	$37,001-$40,000	$37,001-$40,000
	HOH	$27,751-$30,000	$27,751-$30,000
	S; MFS; QW	$18,501-$20,000	$18,501-$20,000
10%	MFJ	$40,001-$62,000	$40,000-$61,500
	HOH	$30,001-$46,500	$30,000-$46,125
	S; MFS; QW	$20,001-$31,000	$20,000-$30,750
0%	MFJ	Over $62,000	Over $61,500
	HOH	Over $46,500	Over $46,125
	S; MFS; QW	Over $31,000	Over $30,750

Retirement Saver's Credit (continued):

Note: AGI determined without regard to foreign possessions and Puerto Rico income exclusions for individuals at least 18 years old by year-end except full-time students or dependent of another in the tax year.

2016 filing dates revised:

Partnership returns are now due March 15 (vs. April 15) and **C corporations (calendar year) are now due April 15** (vs. March 15), with six-month extensions available on each to September 15. S corporations' March 15 filing deadline remains, with six-month extensions available to September 15.

Taxable Income Rate Brackets

	Joint or Surviving Spouse	Single	H of H	Married filing separately
10% RATE ENDS:				
2017	$ 18,650	$ 9,325	$ 13,350	$ 9,325
2016	$ 18,550	$ 9,275	$ 13,250	$ 9,275
15% RATE ENDS:				
2017	$ 75,900	$ 37,950	$ 50,800	$ 37,950
2016	$ 75,300	$ 37,650	$ 50,400	$ 37,650
25% RATE ENDS:				
2017	$153,100	$ 91,900	$131,200	$ 76,550
2016	$151,900	$ 91,150	$130,150	$ 75,950
28% RATE ENDS:				
2017	$233,350	$191,650	$212,500	$116,675
2016	$231,450	$190,150	$210,800	$115,725
33 % RATE ENDS (35% IN EXCESS):				
2017	$416,700	$416,700	$416,700	$208,350
2016	$413,350	$413,350	$413,350	$206,675
35 % RATE ENDS (39.5% IN EXCESS):				
2017	$470,700	$418,400	$444,500	$235,350
2016	$466,950	$415,050	$441,000	$233,475

Additional taxes, such as the .9% additional Medicare health insurance tax applicable to employee wages and self-employed income over $200,000 (or $250,000 for combined wages and self-employment income on a joint return), 3.8% net investment income (NII) tax on the lesser of NII or excess of modified adjusted gross income over $250,000 for joint filers or surviving spouses, $125,000 for married filing separately, and $200,000 for others, and net capital gains taxes at rate of 20% if it would be taxed at 39.6% if ordinary income, 15% rate if it would have been taxed at ordinary income rates from 15% and 35%, or zero if less, or rates of 28% on collectible gains and 25% on unrecaptured section 1250 property depreciation, plus deduction limitations, alternative minimum taxes, available credits and applicable penalties can materially alter your effective tax rates.

We have tailored this planning information for general relevance to our diverse clientele. This letter and a helpful tax data organizer are available on our website, www.fielderco.com, which was created over 25 years ago to assist clients, our friends. Please call on us for specific planning questions in your case. We wish you great success and happiness.

Sincerely,

Jim

Jim Fielder