Year-end tax planning may be a little easier for 2016. For the first time in several years, taxpayers won’t have to wait for Congressional action on late-year “extenders” legislation to know whether certain popular tax breaks are still available to them. The Protecting Americans from Tax Hikes (PATH) Act of 2015 made some of those provisions permanent and extended others for several years.

This 2016 Year-end Tax Planning Guide highlights various PATH Act provisions, along with other potential opportunities for lowering individual and business taxes. As always, it’s best to start planning as early as possible because many strategies will be effective only if they’re implemented before year-end.

However, before you act on any of the information presented in the guide, you’ll want to obtain professional advice. The federal tax law remains highly complex, and your tax planning should be done within the context of your specific situation.

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2016 RATE RUNDOWN

You'll find the 2016 federal income tax rate schedules on page 4. Although the taxable income brackets are somewhat higher than they were in 2015 due to IRS inflation adjustments, the tax rates are the same as they were in 2015.

Your marginal rate. For planning purposes, focus on your marginal tax rate, the rate that applies to your last dollar of taxable income. Knowing your marginal rate can help you gauge the impact of various planning strategies. For example, an additional $1,000 deduction would save $350 in taxes for a taxpayer in the 35% tax bracket.

Personal exemptions. You'll also want to figure in any effect from the tax law's phaseout of personal exemptions. When it applies, this provision effectively increases the tax rates of higher income taxpayers.

Here's how the phaseout works. Each personal exemption you can claim in full (for yourself, your spouse, and your dependents) will reduce your 2016 taxable income by $4,050, up slightly from $4,000 in 2015. However, once your adjusted gross income (AGI) exceeds a specified amount (based on your filing status), your deduction for personal exemptions begins to decrease. With AGI at or over the top of the applicable AGI range, you receive no deduction for personal exemptions. The 2016 AGI phaseout ranges are:

- **Single**
  - $259,400 – $381,900
- **Head of Household**
  - $285,350 – $407,850
- **Married Filing Jointly**
  - $311,300 – $433,800
- **Married Filing Separately**
  - $155,650 – $216,900

Itemized deduction limitation. When AGI exceeds the lower end of the ranges listed above (e.g., $259,400 for a single taxpayer), higher income taxpayers also lose the full benefit of certain itemized deductions, such as state and local taxes and home mortgage interest. At most, 80% of those deductions can be lost. Note, however, that the limitation on itemized deductions does not apply to medical expenses, investment interest, nonbusiness casualty and theft losses, and gambling losses.

A good way to start your year-end tax planning is by identifying any changes in your personal situation that may affect your taxes. A change in your marital status, a move, a job change, starting a business, retirement, a new dependent or the loss of one — any of these life events would likely have a tax impact. Similarly, you’ll want to be alert to any tax law changes that may present planning opportunities.
### TAX LAW CHANGES THAT MAY BENEFIT YOU

#### RETIREMENT ACCOUNTS

- The rules on rollovers to SIMPLE retirement accounts have been relaxed. After two years of plan participation, SIMPLE plans may now accept rollover contributions from a variety of other plan types.
- Individuals age 70½ or older may have as much as $100,000 a year transferred tax free from their individual retirement accounts (IRAs) to qualified charitable organizations.

#### ENERGY

- The Residential Energy Efficient Property (REEP) credit for solar electric and solar water heating property expenditures has been extended through 2021. The 30% credit rate is available through 2019. The credit rate drops to 26% in 2020 and to 22% in 2021.
- The tax credit for making qualified energy improvements to your principal residence, including windows, energy-saving exterior doors, insulation, and certain metal roofs, is available through 2016. The maximum lifetime credit is $500 ($200 for windows).

#### EDUCATION

- Money may be withdrawn tax free from a Section 529 college savings plan for various computer technology expenses of the account beneficiary while he or she is enrolled at an eligible educational institution.
- Higher education tuition and related expenses are potentially deductible subject to a $2,000 or $4,000 cap, depending on income. No deduction is available if modified AGI is more than $80,000 ($160,000 on a joint return). This deduction is set to expire after 2016.
- The American Opportunity Tax Credit for the payment of tuition and related expenses for the first four years of post-secondary education has been made permanent. The maximum credit is $2,500 per eligible student per year. The credit phases out with modified AGI between $80,000 and $90,000 (or between $160,000 and $180,000 on a joint return).
- K-12 teachers and other eligible educators may deduct up to $250 (to be indexed for inflation) of their out-of-pocket expenses for qualifying professional development courses and classroom books, supplies, and equipment.

#### OTHER

- Taxpayers have the option of deducting state and local sales taxes as an itemized deduction instead of deducting state and local income taxes.
- Noncorporate taxpayers may exclude from income 100% of any capital gain realized on the sale of “qualified small business stock” acquired after September 28, 2010, and held for more than five years. Various requirements apply.

Taxpayers must meet various requirements to qualify for these tax breaks.

* The PATH Act of 2015 and the Consolidated Budget Appropriations Act of 2016
TIMING MATTERS

Timing plays a big role in year-end tax planning. Typically, you’ll want to look for ways to delay the taxation of income until a later tax year and accelerate deductible expenses into the current tax year. Such strategies can lower this year’s taxable income — and the amount of income taxes currently payable.

However, if you expect to be in a higher tax bracket next year, consider doing the reverse: Move taxable income into this year and push deductible expenses into next year when the deductions potentially will save you more tax dollars. Before implementing this plan, though, consider the time value of money. By paying taxes earlier, you give up the opportunity to invest those funds in the interim.

Here are some potential ways to defer taxable income:

- Increase pretax salary deferrals to an employer’s 401(k), 403(b), governmental 457, or SIMPLE retirement plan. You’ll find the 2016 deferral limits in the table on page 6.
- See if you can receive a year-end bonus or commission payment in early 2017 instead of in 2016.

Deductible expenses you might be able to accelerate include:

- Charitable contributions. If you mail your check or charge your donation to your credit card by year-end, it will count as a 2016 contribution.
- State income tax payments. Ask your employer to withhold more tax from your remaining 2016 paychecks.

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2016 INCOME TAX RATES

<table>
<thead>
<tr>
<th>RATE (%)</th>
<th>SINGLE</th>
<th>HEAD OF HOUSEHOLD</th>
<th>MARRIED FILING JOINTLY (and surviving spouses)</th>
<th>MARRIED FILING SEPARATELY</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>$0 – $9,275</td>
<td>$0 – $13,250</td>
<td>$0 – $18,550</td>
<td>$0 – $9,275</td>
</tr>
<tr>
<td>15</td>
<td>$9,276 – $37,650</td>
<td>$13,251 – $50,400</td>
<td>$18,551 – $75,300</td>
<td>$9,276 – $37,650</td>
</tr>
<tr>
<td>25</td>
<td>$37,651 – $91,150</td>
<td>$50,401 – $130,150</td>
<td>$75,301 – $151,900</td>
<td>$37,651 – $75,950</td>
</tr>
<tr>
<td>28</td>
<td>$91,151 – $190,150</td>
<td>$130,151 – $210,800</td>
<td>$151,901 – $231,450</td>
<td>$75,951 – $115,725</td>
</tr>
<tr>
<td>33</td>
<td>$190,151 – $413,350</td>
<td>$210,801 – $413,350</td>
<td>$231,451 – $413,350</td>
<td>$115,726 – $206,675</td>
</tr>
<tr>
<td>35</td>
<td>$413,351 – $415,050</td>
<td>$413,351 – $441,000</td>
<td>$413,351 – $466,950</td>
<td>$206,676 – $233,475</td>
</tr>
<tr>
<td>39.6</td>
<td>Over $415,050</td>
<td>Over $441,000</td>
<td>Over $466,950</td>
<td>Over $233,475</td>
</tr>
</tbody>
</table>
Alternatively, make your January estimated state and local income tax payment before year-end and pay enough to cover any projected balance due.

- Real estate taxes. Amounts paid in 2016 would generally be deductible on your 2016 return even if the taxes were for 2017.

**Consider the AMT.** Before accelerating tax payments, though, check to make sure that doing so will not create an AMT problem. For example, claiming a large deduction for state and local taxes could trigger the AMT. Other potential AMT triggers include:

- The exercise of incentive stock options
- A higher-than-average number of dependency exemptions
- Significant amounts of tax-exempt interest from “private activity” municipal bonds
- A large deduction for unreimbursed employee business expenses and miscellaneous expenses
- Interest on a mortgage not used to buy, build, or improve your home

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### 2016 AMT RATES

<table>
<thead>
<tr>
<th>TAXABLE AMT INCOME</th>
<th>RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 – $186,300</td>
<td>26%</td>
</tr>
<tr>
<td>Over $186,300</td>
<td>28%</td>
</tr>
</tbody>
</table>

**The 2016 AMT Exemption Amounts Are:**

- For unmarried filers: $53,900
- For married couples filing jointly: $83,800
- For married individuals filing separately: $41,900

The exemptions are phased out for higher income taxpayers.

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**Maximize above-the-line deductions.** Certain expenses are deductible from your gross income in arriving at your AGI. These “above-the-line” deductions (adjustments) are available whether you claim the standard deduction or itemize your deductions. And they’re especially valuable because they work double-time by both reducing your AGI and helping you preserve tax breaks you might otherwise lose because your AGI is too high.

Making the most of above-the-line deductions will help lower your tax bill. Here are some potential deductions to keep in mind:

- Contributions to a traditional IRA
- Student loan interest (up to $2,500)
- Tuition for higher education (up to $4,000)
- Health savings account (HSA) contributions (see page 10)
- Employment-related moving expenses
- Alimony payments
- Educator expenses (up to $250)
- Penalties on the early withdrawal of savings

Self-employed individuals may also claim an above-the-line deduction for half of their self-employment tax (other than the 0.9% additional tax), certain retirement account contributions, and qualifying medical insurance premiums. Since minimizing AGI gives you a variety of tax advantages, you won’t want to overlook any above-the-line deductions you are entitled to claim.

**Add up medical and miscellaneous expenses.** Gaining an itemized deduction for unreimbursed medical expenses or miscellaneous expenses can be difficult. The reason: The tax law allows a deduction for such expenses only in the amount that exceeds a percentage of AGI.

In 2016, medical expenses are generally deductible only to the extent that your total unreimbursed expenses exceed 10% of your AGI (7.5% of AGI if your spouse or you are age 65 or over as of the end of 2016). Starting in 2017, the 10%-of-AGI deduction floor will apply to all taxpayers. Similarly, unreimbursed employee business expenses and miscellaneous expenses are deductible only in the amount that exceeds 2% of your AGI.

- To the extent possible, bunching expenses in one tax year may help you exceed the AGI floor and gain a deduction for a portion of your expenses that year. For example, if you expect your medical expenses to be more than 10% (or 7.5%) of your 2016 AGI, consider scheduling and paying for elective surgery, dental work, and eye appointments in late 2016.
- Conversely, if a 2016 deduction doesn’t seem likely, you might delay these expenses until after year-end in hopes of gaining a 2017 deduction for them.
RETIREMENT PLANNING

No matter where you are in your career, accumulating assets for your future retirement is probably one of your biggest financial goals. Maximizing your contributions to tax-favored retirement plans can help you pursue that goal while also saving you money on your taxes.

Take advantage of employer plans. With an employer-sponsored retirement savings plan — such as a 401(k), 403(b), or SIMPLE plan — your contributions and any earnings on those contributions generally won’t be taxed until you begin receiving funds from the plan.

Some employers also allow employees to make after-tax Roth contributions to their 401(k) or 403(b) retirement savings plans. Roth contributions are subject to current income taxes, but once in the plan, the contributions potentially grow tax deferred. Withdrawals of both Roth contributions and related earnings are not taxed if certain requirements are met.

Fund an IRA. You may make an IRA contribution for the 2016 tax year as late as the April 2017 filing deadline for your federal income tax return. There are no income restrictions on making tax-deductible contributions to a traditional IRA unless you or your spouse actively participates in an employer-sponsored retirement plan. With active plan participation, the 2016 deduction gradually phases out once AGI exceeds:

- $61,000 (single/head of household), $98,000 (married filing jointly), or $0 (married filing separately)
- $184,000 (married filing jointly) for a contribution to the IRA of a married person who does not actively participate in an employer plan but whose spouse does.

HOW MUCH CAN YOU CONTRIBUTE FOR 2016?

To maximize your retirement savings, contribute as much as possible each year. The 2016 limits are shown below. Note, however, that employer plans may or may not permit participants who have reached age 50 to contribute the higher amounts indicated. Additional contribution limits could apply.

<table>
<thead>
<tr>
<th>TYPE OF PLAN</th>
<th>UNDER AGE 50</th>
<th>AGE 50 OR OLDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(k), 403(b), 457, SEP*</td>
<td>$18,000</td>
<td>$24,000</td>
</tr>
<tr>
<td>SIMPLE IRA</td>
<td>$12,500</td>
<td>$15,500</td>
</tr>
<tr>
<td>Traditional/Roth IRA**</td>
<td>$5,500</td>
<td>$6,500</td>
</tr>
</tbody>
</table>

* Only SEP plans established before 1997 may allow employees to make pretax contributions.
** IRA contributions may not exceed earned income.
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