



Important Changes for 2016



Due Date of Return

The due date for filing a 2016 return is Tuesday, April 18, 2017. This is because April 15, 2017 is a Saturday and Emancipation Day is observed in Washington DC on Monday, April 17, 2017.

Standard Deduction Increases

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2016 are:

- \$12,600 – Married Filing Jointly or Qualifying Widow(er) (no change)
- \$9,300 – Head of Household (increase of \$50)
- \$6,300 – Single or Married Filing Separately (no change)

Taxpayers who are 65 and Older or are Blind

For 2016, the additional standard deduction for taxpayers who are 65 and older or blind is:

- \$1,550 – Single or Head of Household (no change)
- \$1,250 for married taxpayers or Qualifying Widow(er) (no change)

Personal Exemption Amount

The amount a taxpayer can deduct for each exemption increased to \$4,050 for 2016 (increase of \$50).

Retirement Savings Contribution Credit Income Limits Increased

In order to claim this credit, the taxpayer's modified adjusted gross income (MAGI) must not be more than \$30,750 for Single, Married Filing Separately, or Qualifying Widower (increase of \$250). MAGI must not be more than \$46,125 (increase of \$350) for Head of Household, and \$61,500 (increase of \$500) for Married Filing Jointly.

Earned Income Credit (EIC)

Amount of Credit Increased

For 2016, the maximum credit is:

- \$6,269 with three or more children
- \$5,572 with two children
- \$3,373 with one child
- \$506 with no children

Earned Income Amount Increased

To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$47,955 (\$53,505 if Married Filing Jointly) with three or more qualifying children
- \$44,648 (\$50,198 if Married Filing Jointly) with two qualifying children
- \$39,296 (\$44,846 if Married Filing Jointly) with one qualifying child
- \$14,880 (\$20,430 if Married Filing Jointly) with no qualifying child

Investment Income

Taxpayers whose investment income is more than \$3,400 cannot claim the EIC.

Standard Mileage Rate

For 2016, the following rates are in effect:

- 54 cents per mile for business miles driven
- 19 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations (no change)

Education Benefits

American opportunity credit for 2016 is gradually reduced (phased out) if taxpayers' MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is \$90,000 or more (\$180,000 or more if Married Filing Jointly). There is no change.

Lifetime learning credit for 2016 is gradually reduced (phased out) if taxpayers' MAGI is between \$55,000 and \$65,000 (\$111,000 and \$131,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is \$65,000 or more (\$131,000 or more if Married Filing Jointly).

Student loan interest deduction begins to phase out for taxpayers with MAGI in excess of \$65,000 (\$130,000 for joint returns) and is completely phased out for taxpayers with MAGI of \$80,000 or more (\$160,000 or more for joint returns). There is no change.

Eligible Long-Term Care Premium Limits Increased

For 2016, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040) Itemized Deductions.

\$390: age 40 or under

\$730: age 41 to 50

\$1,460: age 51 to 60

\$3,900: age 61 to 70

\$4,870: age 71 and over

TIP

The limit on premiums is for each person.

Foreign Earned Income and Housing Exclusions

For 2016, the maximum foreign earned income exclusion will be \$101,300, up from \$100,800 for 2015. The foreign housing exclusion is \$44.28 per day or \$16,208 for the year.

Link & Learn Taxes – Optional Courses

Health Savings Account (HSA) Deduction

The annual contribution limits on deductions for HSAs for individuals with self-only coverage is \$3,350 (no

change) and \$6,750 for family coverage (increase of \$100). There is an additional contribution amount for taxpayers who are age 55 or older.



Deduction Amount and Modified AGI Limit for Traditional IRA Contributions Increased

For 2016, the maximum IRA deduction will remain at \$5,500 (\$6,500 if age 50 or older). For taxpayers who are covered by a retirement plan at work, the deduction for contributions to a traditional IRA is reduced (phased out) if the modified AGI is:

- More than \$98,000 but less than \$118,000 for a married couple filing a joint return or a qualifying widow(er) if both spouses are covered by a retirement plan,
- More than \$61,000 but less than \$71,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return

For an IRA contributor who is **not** covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$184,000 and \$194,000.

New IRA Self-Certification Procedure

Revenue Procedure 2016-47 explains a self-certification procedure designed to help recipients of retirement plan distributions who inadvertently miss the 60-day time limit for properly rolling these amounts into another retirement plan or individual retirement arrangement (IRA). Eligible taxpayers can qualify for a waiver of the 60-day time limit and avoid possible taxes and penalties on early distributions, if they meet certain circumstances. Taxpayers who missed the time limit will now ordinarily qualify for a waiver if one or more of 11 circumstances, listed in the revenue procedure, apply:

- An error was committed by the financial institution making the distribution or receiving the contribution.
- The distribution was in the form of a check and the check was misplaced and never cashed.
- The distribution was deposited into and remained in an account that the taxpayer mistakenly thought was a retirement plan or IRA.
- Taxpayer's principal residence was severely damaged.
- One of the taxpayer's family members died.
- Taxpayer or a family member was seriously ill.
- Taxpayer was incarcerated.
- Restrictions were imposed by a foreign country.
- A postal error occurred.
- The distribution was made on account of an IRS levy and the proceeds of the levy have been returned.
- The party making the distribution delayed providing information that the receiving plan or IRA required to complete the rollover despite reasonable efforts to obtain the information.

For more information, visit the ["Can You Move Retirement Plan Assets?"](#) section in Publication 590-A or the [Rollovers of Retirement Plan and IRA Distributions](#) page on IRS.gov.



Affordable Care Act

Exercises to illustrate scenarios involving the Affordable Care Act (ACA) are contained in Publication 5157-A.

The flat dollar amounts used in calculating the shared responsibility payment increased for 2016. See the ACA lesson for details.

Payments in Cash

Cash is a new in-person payment option for individuals to pay taxes owed. This service is provided through retail partners with a maximum of \$1,000 per day per transaction. To make a cash payment, taxpayers must first be registered online at www.officialpayments.com/fed. This cash option is only available at participating 7-Eleven locations in 34 states.

New Legislation

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) made the following tax provisions permanent:

- Adjustments for up to \$250 for educator classroom expenses. This provision was modified to include certain expenses related to professional development courses the taxpayer takes related to the curriculum they teach or to their students. The deduction amount will be indexed for inflation for future years.
- Qualified Charitable Distribution (QCD).
- State and local general sales tax deduction.

The PATH Act extended the following provisions through 2016:

- Exclusion from gross income of qualified principal residence indebtedness
- Mortgage insurance premiums deductible as qualified residence interest
- Deduction for qualified tuition & fees
- Credit for nonbusiness energy property (residential energy credit)

Other provisions of the PATH Act include:

- American opportunity tax credit made permanent, replacing the Hope credit.
- Reduced earned income threshold for additional child tax credit made permanent at \$3,000.
- Earned income tax credit made permanent for 3 or more qualifying children.
- Refundable Credits Refund date – no credit or refund for an overpayment for a taxable year shall be made to a taxpayer before the 15th day of the second month (February 15) following the close of the taxable year if the taxpayer claimed the EITC or additional child tax credit (ACTC) on the tax return. The IRS will hold the entire refund. Under the new law, the IRS cannot release the part of the refund that is not associated with the EITC and ACTC. This provision does not meet TAS hardship criteria and no refunds with EITC/ACTC will be released prior to Feb. 15.
- **Taxpayers can no longer make retroactive claims of the EITC after issuance of a social security number.** A taxpayer must have an SSN by the due date of the return (including extensions) in order to claim the EITC. Likewise, any qualifying child claimed for the EITC must have an SSN by the due date of the return (including extensions).

- Taxpayers claiming the American opportunity credit must now have an SSN or an ITIN by the due date of the tax return (including extensions). Further, the student claimed for the credit must have an SSN, an ITIN, or an Adoption Taxpayer Identification Number (ATIN) by the due date (including extensions). **Taxpayers cannot make retroactive claims for the credit for a period that the taxpayer and student did not have a required identification number.**
- Taxpayers claiming the **child tax credit** must now have an SSN or an ITIN by the due date of the tax return (including extensions). Further, the child claimed for the credit must have an SSN, an ITIN, or an ATIN by the due date (including extensions). **Taxpayers cannot make retroactive claims for the credit for a period that the taxpayer did not have a required identification number.**
- Employer Identification number required for taxpayers claiming the American opportunity tax credit.
- Under the PATH Act, any ITIN that is not used on a federal tax return for three consecutive tax years, either as the ITIN of an individual who files the return or as the ITIN of a dependent included on a return, will expire on December 31 of the third consecutive tax year of nonuse. For example, an individual applied for and received an ITIN in 2015 that is used in 2015 on the individual's 2014 federal income tax return. If the individual does not file or is not claimed as a dependent on a tax return in 2016, 2017, and 2018, the ITIN will expire on December 31, 2018. This rule applies to all ITINs regardless of when the ITIN was issued.
- ITINs issued prior to January 1, 2013 that have been used on a tax return in the last three consecutive years are set to expire based on a multi-year schedule. Under the PATH Act, this schedule is based on the date that an ITIN was issued. However, many ITIN holders may not know when their ITIN was issued and previously had no reason to keep a record of the date an ITIN was issued. To simplify the renewal process and allow for the effective administration of the program, the IRS will administer the renewal of ITINs on a schedule that is different from the schedule in the PATH Act. The IRS will renew ITINs based upon the fourth and fifth digits (middle digits) in the ITIN. ITINs that contain the middle digits of 78 or 79 will no longer be in effect beginning January 1, 2017. The expiration and renewal schedules for ITINs with middle digits other than 78 or 79 will be announced in future guidance. See Notice 2016-48 for more information.
- Adds credit disallowance period for child tax credits or American opportunity tax credits improperly claimed. Requires taxpayers to demonstrate eligibility after the CTC or AOTC is disallowed using deficiency procedures (existing requirement for EITC).
- 20% penalty on erroneous claims on refundable portion of credits.
- Higher education information reporting only include qualified tuition & related expenses actually paid. Applies to expenses paid after December 31, 2015. Following the enactment of PATH, numerous eligible educational institutions informed the IRS that implementation of the law change will require computer software reprogramming and other changes that cannot be implemented in time to meet the applicable filing and furnishing due dates for Form 1098-T for calendar year 2016. In light of this, the IRS will not impose penalties with respect to 2016 Forms 1098-T solely because the eligible educational institution reports the aggregate amount billed for qualified tuition and related expenses for the 2016 calendar year. Thus, eligible educational institutions will continue to have the option of reporting either the amount of payments of qualified tuition and related expenses received or the amount of qualified tuition and related expenses billed for the 2016 calendar year without being subject to penalties.
- Expands definition of qualified higher education expenses for 529 plans to include computer equipment and technology.
- ABLE accounts to be established in any state.
- **Tax Relief available for the wrongfully incarcerated; some must amend by Dec. 2016.** Taxpayers who were wrongfully incarcerated can now take advantage of the new retroactive exclusion from civil

