

# 2016 tax planning guide

The pursuit of your financial goals begins with a plan.

**Advice. Beyond investing.** Your financial life encompasses much more than the current markets. It includes your goals for the future and how you want to live right now. We are committed to helping you address your needs—giving you the confidence to pursue your life's goals. This includes helping you assess your tax strategy in the context of your larger financial goals.

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## 2016 dividends and capital gains tax rates

Type of income	Holding period	Top rate for 10%, 15% tax brackets	Top rate for 25%, 28%, 33%, 35% tax brackets	Top rate for 39.6% tax bracket
Ordinary dividends	(See below)	Ordinary income tax rate	Ordinary income tax rate	Ordinary income tax rate
Qualified dividends	(See below)	0%	15%	20%
Short-term capital gains	12 months or less	Ordinary income tax rate	Ordinary income tax rate	Ordinary income tax rate
Long-term capital gains	More than 12 months	0%	15%	20%

Capital losses are deductible, dollar for dollar, against capital gains.

### Qualified dividends

A dividend is considered qualified if it is paid by a U.S. corporation or certain "qualified foreign corporations." The term "qualified foreign corporation" includes a foreign corporation incorporated in a U.S. possession; a foreign corporation whose dividend-paying security is "readily traded" on an established securities market in the U.S.; and a foreign corporation entitled to the benefits of a tax treaty with the U.S. that includes an exchange of information requirement. Passive foreign investment companies (PFICs) are not qualified foreign corporations. A foreign-based corporation is classified as a PFIC if either 75% or more of the corporation's income is considered passive, or at least 50% of the company's assets are investments that produce interest, dividends and/or capital gains.

To be eligible for the lower qualified dividend tax rate, a taxpayer must have held the dividend-paying stock for more than 60 days during the 121-day period that began 60 days prior to the ex-dividend date. For dividends received on certain preferred stock (generally dividends that represent an earnings period of more than one year), the taxpayer must have held the stock for more than 90 days during the 181-day period that began 90 days before the ex-dividend date.

### Capital losses

Capital losses are deductible, dollar for dollar, against capital gains. Up to \$3,000 (\$1,500 for taxpayers who are married filing separately) in net capital losses (either short-term or long-term) may be deducted each year against ordinary income. Net capital loss amounts in excess of \$3,000 may be carried forward indefinitely.

Capital losses expire at death. These losses belong to the individual who incurred them and cannot be transferred to a spouse or the individual's estate or revocable trust at death.

### Other preferential capital gains rates

- Long-term capital gains attributable to real estate depreciation (i.e., Section 1250 gains) are taxed at a maximum rate of 25%.
- Capital gains on collectibles (e.g., such as gold and art) held for more than one year are taxed at a maximum rate of 28%.
- Capital gains on qualified small business stock (QSBS) may be excluded from taxation if certain requirements are met. This provision was made permanent with the Protecting Americans from Tax Hikes (PATH) Act of 2015.

## Losses from the sale or disposition of securities that constitute a wash sale are not deductible.

### Net investment income tax

The 3.8% net investment income tax (NIIT) remains in effect. The tax is 3.8% of the lesser of (1) net investment income and (2) the excess of modified adjusted gross income (MAGI) over the threshold amount. The net investment income tax will be assessed on taxpayers with MAGI exceeding the following threshold amounts:

- \$250,000 for taxpayers who are married filing jointly and surviving spouses;
- \$125,000 for taxpayers who are married filing separately; and
- \$200,000 for all other taxpayers.

Income derived from real estate activities may be excluded from net investment income when calculating NIIT if an individual qualifies as a real estate professional. The rules are complex; consult your tax advisor if you think you qualify as a real estate professional.

Certain investment income earned by a trader in financial instruments is exempt from the NIIT. Again, the rules are complex and you should consult your tax advisor if you think you qualify as a trader in financial instruments.

### Worthless securities

If a security that is a capital asset becomes worthless at any time during the tax year, it is treated as if it were sold on the last day of the tax year in which it became worthless.

A tax loss may be claimed in the year the security becomes worthless. A security that became worthless in a prior year may not be claimed as a capital loss in the current year (but the loss may be claimed for a prior year by amending the tax return for the year the loss occurred). Generally, the refund limitation for carrybacks is three years, but it may extend up to seven years in certain situations.

### Wash sales

A wash sale occurs when you sell or dispose of stock or securities at a loss and, within the 61-day period beginning 30 days prior to the sale or disposition date and ending 30 days after the sale or disposition date, you acquire substantially similar stock or securities (or a contract/option to buy substantially similar stock or securities).

Losses from the sale or disposition of stock or securities that constitute a wash sale are not deductible. The disallowed losses are added to the cost basis of the newly purchased stock or securities, resulting in a postponement of the loss recognition until the sale of the new stock or securities.

The holding period for the newly purchased stock or securities begins on the same day the original stock or securities were purchased.

**Note:** An IRA cannot be used to avoid the effect of the wash sale rule. When an individual sells stock or securities for a loss and purchases substantially similar stock or securities within the 61-day period beginning 30 days prior to the sale and ending 30 days after the sale through his or her IRA or Roth IRA, the individual's loss on the sale is disallowed.

## Transfers to custodial accounts are complete and irrevocable.

### Custodial accounts

#### UGMA/UTMA

Each state has adopted a Uniform Gifts to Minors Act (UGMA) and/or Uniform Transfers to Minors Act (UTMA) to facilitate ownership of assets by minors.

#### Contribution limits

There are no limits on contributions to UGMA or UTMA accounts. However, contributions in excess of the gift tax annual exclusion amount may be subject to gift tax if the donor has used all of his or her lifetime gift tax exemption (see page 15).

#### Ownership

Transfers to custodial accounts are complete and irrevocable. The minor can take full control of the account when he or she reaches the age of majority, which is generally age 18 or 21 (depending on applicable state law).

#### Taxes

Custodial accounts do not provide tax deferral. Taxes are due in the year income is recognized/earned by the account. All income (including capital gains) is taxed to the minor and is subject to "kiddie tax" rules (see below).

#### Kiddie Tax

The Kiddie Tax rules apply to a child's unearned income (e.g., interest, dividends, and capital gain distributions). The Kiddie Tax rules generally apply if:

- The child was under age 18, and
- The child was age 18 at the end of the tax year and the child's earned income does not exceed one-half of the child's own support for the year, or
- The child was a full-time student under age 24 and the child's earned income does not exceed one-half of the child's own support for the year.

#### Kiddie Tax rate schedule (assumes no earned income)

Unearned income	Tax
Less than \$1,050	No tax
\$1,050 – \$2,100	Taxed at single taxpayer rate
Greater than \$2,100	Taxed at higher of parent's top marginal tax rate and child's tax rate

#### Parental election to report child's income

Parents may elect to report their child's income on their own tax returns. If the election is made, the child is not required to file a tax return. Parents can make this election only if all the following conditions are met:

- The child was under age 19 (or under age 24 if a full-time student) at the end of the year.
- The child's only income was from interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends).
- The child's gross income was less than \$10,500.
- The child would be required to file a return but for this election.
- The child does not file a joint return for the year.
- No estimated tax payment was made for the year and no overpayment from the previous year (or from any amended return) was applied to this year under the child's name and Social Security number.

If a child has capital gain or loss on the sale of securities, the child must file his or her own tax return.

- No federal income tax was withheld from the child's income under the backup withholding rules.
- He/she is the parent whose return must be used when applying the special tax rules for children.

**Note:** If a child has capital gain or loss on the sale of securities (not capital gain distributions) the child must file his or her own return.

#### Estimated tax payments

Estimated tax is used to pay tax on income that is not subject to withholding, such as income derived from self-employment. You may be charged a penalty if you do not pay enough through withholding and/or estimated tax payments. In general, estimated tax must be paid if the taxpayer expects to owe at least \$1,000 in tax for 2016 (after subtracting the credit for taxes withheld) and he or she expects withholding and credits to be less than the smaller of:

- 90% of the tax to be shown on the taxpayer's 2016 tax return, or
- 100% (110% if taxpayer's 2015 AGI exceeded \$150,000, or \$75,000 for taxpayers who are married filing separately) of the tax shown on the taxpayer's 2015 tax return. The 2015 tax return must cover all 12 months.

#### Due dates (for calendar year-end individuals)

Installment	Due date
First	April 18, 2016
Second	June 15, 2016
Third	September 15, 2016
Fourth*	January 15, 2017

\* A fourth installment is not required if the taxpayer files his or her 2016 tax return and pays any tax owed before January 29, 2017.

#### Social Security, Medicare and self-employment taxes

##### Social Security and Medicare tax detail

Status	Social Security/ OASDI* tax rate	Medicare tax rate	Total tax rate
Employee	6.20%	1.45%	7.65%
Self-employed**	12.40%	2.90%	15.30%

Assume a worker earned \$150,000 of income during 2016 (multiply wage base by Social Security and Medicare rates listed above).

Status	Social Security/ OASDI* tax	Medicare tax	Total tax
Employee	\$7,347	\$2,175	\$9,522
Employer	\$7,347	\$2,175	\$9,522
Self-employed**	\$14,694	\$4,350	\$19,044

\* Old age, survivor and disability insurance portion of Social Security tax.

\*\* Self-employed individuals may deduct one-half of the self-employment tax on their income tax return.

## There is no 2016 Cost of Living Adjustment to the Social Security base.

An additional 0.9% Medicare tax will be assessed on earned income over \$200,000 for single taxpayers (\$250,000 for married taxpayers filing jointly, \$125,000 for married taxpayers filing separately). This 0.9% surtax, when combined with the ordinary 2.9% Medicare tax, equals a total 3.8% Medicare tax on earned income over the threshold amount. Self-employed individuals will be responsible for paying the full 3.8% tax while non-self-employed taxpayers will add the 0.9% to their portion of the Medicare tax (1.45%) and are therefore responsible for paying a 2.35% tax on income over the threshold.

There is no 2016 Cost of Living Adjustment to the Social Security base. The wage base for Social Security and self-employment tax is \$118,500. This means Social Security taxes are calculated on the first \$118,500 of earned income only. There is no wage base for Medicare; the tax applies to all earned income.

### Social Security income thresholds

Social Security benefits may be taxable (up to a maximum of 85% of the benefit amount) when provisional income exceeds a specified threshold amount (noted below). Provisional income includes AGI, plus tax-exempt interest, plus one-half of Social Security benefits.

Filing status	50% tax threshold	85% tax threshold
Married filing jointly	\$32,000 – \$44,000	Over \$44,000
Single	\$25,000 – \$34,000	Over \$34,000

### 2016 maximum monthly Social Security benefit

The maximum monthly Social Security benefit is \$2,639. An individual who reached full retirement age in 2016 and who earned at least the maximum wage base amount during his or her working years would be eligible for this level of benefit.

### Social Security Administration contact information

Entity	Phone number	Website
Social Security Administration	800-772-1213	<a href="http://www.ssa.gov">www.ssa.gov</a>
Medicare	800-633-4227	<a href="http://www.medicare.gov">www.medicare.gov</a>

### Social Security earnings test

The Social Security earnings test indicates the level of earnings permissible for recipients of Social Security benefits, without incurring a reduction in benefits.

Length of time until retirement age	Earnings limitation for 2016	Reduction in benefits
Years prior to full retirement age	\$15,720/year	\$1 for every \$2 in earnings above the limit
Year of retirement age up to retirement month	\$41,880/year	\$1 for every \$3 in earnings above the limit
Month of retirement age and beyond	No limit	No reduction

## Retirement plans

### Employer-sponsored retirement plan contribution limits

The following are the 2016 limits on contributions to various retirement plans. Individuals age 50 and over are eligible for "catch-up" contributions in addition to the base limit.

Account type	Salary deferral limit	Catch-up contribution (age 50+)	Total maximum salary deferral (age 50+)
401(k)/403(b)/457	\$18,000	\$6,000	\$24,000
SIMPLE IRA	\$12,500	\$3,000	\$15,500

The total maximum allowable addition to a 401(k), 403(b), or 457 plan account, including employee salary deferral and employer contribution, is \$53,000 in 2016.

Businesses that maintain a SEP-IRA can make contributions of up to \$53,000 or 25% of compensation, whichever is less. For self-employed taxpayers, the percentage contribution limit is 20% of net self-employment income (after deduction for self-employment taxes) instead of 25%.

### Traditional IRA vs. Roth IRA

	Traditional IRA	Roth IRA
Qualifications	Individual or spouse must have earned income and must not reach age 70½ by the end of the year.	Individual or spouse must have earned income.
Maximum contribution	\$5,500	\$5,500
Catch-up contribution limit (age 50 and over)	\$1,000	\$1,000
Tax deduction allowed	If neither the taxpayer nor spouse is a participant in an employer's plan, then the contribution is 100% deductible regardless of AGI.  Active participation in an employer's plan will subject the deduction to the following AGI phase-out limits: Single: \$61,000 – \$71,000. Married filing jointly: \$98,000 – \$118,000. Spouse participant: \$184,000 – \$194,000.	No deductions are allowed for contributions.
Contributions allowed	Contributions are always allowed to traditional IRAs, regardless of income.	Contributions are subject to AGI phase-out: Single: \$117,000 – \$132,000. Married filing jointly: \$184,000 – \$194,000.
Required Minimum Distributions (RMD)	Must begin by April 1 following the year in which the IRA owner turns 70½. Distributions in subsequent years must occur by December 31.	Distributions are only required after the death of the IRA owner.
Penalties on distributions	A 10% penalty may apply to early traditional IRA and nonqualified Roth IRA distributions.  A 6% penalty applies to excess contributions.  A 50% penalty applies for failure to take required minimum distributions from a traditional IRA.	

The “qualified charitable” distribution provision of the Tax Code was made permanent with the passage of the PATH Act of 2015.

### **Conversions**

There is no AGI limitation for conversions from a traditional IRA to a Roth IRA. The taxable portion of the amount converted is subject to tax in the year the conversion takes place.

Conversions are not subject to the 10% early distribution penalty.

When rolling a traditional IRA to a different traditional IRA account, funds must be transferred to the new account within 60 days of the rollover, otherwise the distribution will be deemed taxable. Beginning in 2015 a taxpayer may only make one nontaxable 60-day IRA rollover within each one-year period and may not aggregate multiple rollovers, even if the rollovers involved different IRAs. These rules do not apply to trustee-to-trustee transfers (direct rollovers) or Roth conversions.

Taxpayers can contribute to a traditional IRA and then roll the account over to a Roth IRA to grow future earnings tax-free. A portion of these Roth IRA conversions may be taxable as ordinary income in the year made, but are not subject to the additional 3.8% NIIT.

### **Provision for IRA distributions donated to charity**

A “qualified charitable distribution” from a traditional IRA or a Roth IRA is any otherwise taxable distribution that is made directly from the IRA trustee to a qualified charity after the IRA owner has attained the age of 70½. Taxpayers who are age 70½ or older can exclude up to \$100,000 of their IRA distributions from gross income if the distributions qualify as “qualified charitable distributions.” This provision was made permanent with the passage of the PATH Act of 2015.

### **Employee stock options (tax characteristics)**

#### **Non-qualified stock options (NQSOs)**

The difference between the exercise price and the market price (“spread” or “bargain element”) of a NQSO is taxed as compensation income in the year of exercise. The employer must withhold all applicable income taxes (i.e., federal, Social Security, Medicare, and state and local) when the options are exercised.

The taxpayer’s basis at the time of exercise is equal to the exercise price plus the amount of ordinary income reported (i.e., the spread based on fair market value on the date of exercise). The holding period of the stock begins on the date the right to acquire the stock is exercised. Capital gain (or loss) applies to any post-exercise appreciation (or depreciation).

The spread on a NQSO is not treated as an “adjustment item” for AMT purposes.

#### **Incentive stock options (ISOs)**

There are no “regular” income tax consequences at the time of exercise. However, the difference between the exercise price and the FMV (spread or bargain element) is an adjustment item for AMT purposes in the year of exercise.

The basis of the stock received is equal to the exercise price paid for regular tax purposes. For AMT purposes, the basis is the amount paid plus the amount of the AMT adjustment.



A company may provide a discount of up to 15% on the price of the stock in an Employee Stock Purchase Plan.

If the stock is held for more than two years from the grant date and more than one year from the exercise date, all appreciation after the exercise date is taxed as long-term capital gain. The holding period requirement is waived in the event of the employee's death.

Taxpayers are limited to \$100,000 in value of ISOs for any given tax year. If the aggregate FMV of stock options that become exercisable for the first time during any year exceeds \$100,000, the options in excess of this amount cannot be treated as ISOs.

#### **Disqualifying disposition (ISOs)**

A disqualifying disposition occurs when stock received from an ISO exercise is sold or otherwise disposed of before meeting the holding period requirements (two years from the grant date or one year from the exercise date). When a disqualifying disposition of incentive stock options occurs, the tax impact is similar to that of non-qualified stock options. In the year of disposition, the difference between the exercise price and the market price on the day of the exercise is treated as compensation income and any appreciation above or depreciation below the market price on the date of exercise is treated as a capital gain or loss for tax purposes. The spread is not treated as an adjustment item for AMT purposes if the disposition occurs in the year of exercise.

#### **Employee Stock Purchase Plans (ESPPs)**

The company may provide a discount of up to 15% on the price of the stock in an Employee Stock Purchase Plan.

You cannot purchase more than \$25,000 worth of stock in any one calendar year. This limit is calculated based on the undiscounted purchase price of the stock at the beginning of the calendar year, so an employee's out of pocket cost will be less than \$25,000 in a given calendar year.

There is a special holding period requirement that is met on the later of two years after the grant date and one year after the employee receives the stock. If the stock is sold or otherwise disposed of prior to satisfying the special holding period, the taxpayer must report compensation income equal to the bargain element when the stock was purchased. This income must be reported even if the stock is sold at a loss. If the special holding period is met, no compensation income is reported if the stock is sold at a loss. If the stock is sold at a gain, compensation income is limited to the lesser of the amount of profit and the difference between the value of the stock when the option was granted and the option price.

The basis for ESPP stock is equal to the purchase price plus any ordinary income recognized.

**Note:** An ESPP is not a retirement plan and does not fall within the purview of ERISA. An ESPP should not be confused with an employee stock ownership plan (ESOP). An ESOP is a qualified tax-deferred plan designed to invest primarily in employer stock.

## 2016 individual income tax rates

Individual income tax rates remain largely unchanged from 2015 to 2016. The only significant change comes from the inflation adjustments to the tax brackets. Below illustrates a comparison of 2015 and 2016 individual income tax rates for all categories of filers.

### 2015

#### Married filing jointly/Qualifying widow(er)

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$18,450	\$0	10%	\$0
\$18,450	\$74,900	\$1,845	15%	\$18,450
\$74,900	\$151,200	\$10,312.50	25%	\$74,900
\$151,200	\$230,450	\$29,387.50	28%	\$151,200
\$230,450	\$411,500	\$51,577.50	33%	\$230,450
\$411,500	\$464,850	\$111,324	35%	\$411,500
\$464,850	–	\$129,996.50	39.6%	\$464,850

#### Single

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$9,225	\$0	10%	\$0
\$9,225	\$37,450	\$922.50	15%	\$9,225
\$37,450	\$90,750	\$5,156.25	25%	\$37,450
\$90,750	\$189,300	\$18,481.25	28%	\$90,750
\$189,300	\$411,500	\$46,075.25	33%	\$189,300
\$411,500	\$413,200	\$119,401.25	35%	\$411,500
\$413,200	–	\$119,996.25	39.6%	\$413,200

#### Head of household

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$13,150	\$0	10%	\$0
\$13,150	\$50,200	\$1,315.00	15%	\$13,150
\$50,200	\$129,600	\$6,872.50	25%	\$50,200
\$129,600	\$209,850	\$26,722.50	28%	\$129,600
\$209,850	\$411,500	\$49,192.50	33%	\$209,850
\$411,500	\$439,000	\$115,737.00	35%	\$411,500
\$439,000	–	\$125,362.00	39.6%	\$439,000

#### Married filing separately

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$9,225	\$0	10%	\$0
\$9,225	\$37,450	\$922.50	15%	\$9,225
\$37,450	\$75,600	\$5,156.25	25%	\$37,450
\$75,600	\$115,225	\$14,693.75	28%	\$75,600
\$115,225	\$205,750	\$25,788.75	33%	\$115,225
\$205,750	\$232,425	\$55,662.00	35%	\$205,750
\$232,425	–	\$64,989.25	39.6%	\$232,425

### 2016

#### Married filing jointly/Qualifying widow(er)

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$18,550	\$0	10%	\$0
\$18,550	\$75,300	\$1,855.00	15%	\$18,550
\$75,300	\$151,900	\$10,367.50	25%	\$75,300
\$151,900	\$231,450	\$29,517.50	28%	\$151,900
\$231,450	\$413,350	\$51,791.50	33%	\$231,450
\$413,350	\$466,950	\$111,818.50	35%	\$413,350
\$466,950	–	\$130,578.50	39.6%	\$466,950

#### Single

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$9,275	\$0	10%	\$0
\$9,275	\$37,650	\$927.50	15%	\$9,275
\$37,650	\$91,150	\$5,183.75	25%	\$37,650
\$91,150	\$190,150	\$18,558.75	28%	\$91,150
\$190,150	\$413,350	\$46,278.75	33%	\$190,150
\$413,350	\$415,050	\$119,934.75	35%	\$413,350
\$415,050	–	\$120,529.75	39.6%	\$415,050

#### Head of household

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$13,250	\$0	10%	\$0
\$13,250	\$50,400	\$1,325.00	15%	\$13,250
\$50,400	\$130,150	\$6,897.50	25%	\$50,400
\$130,150	\$210,800	\$26,835.00	28%	\$130,150
\$210,800	\$413,350	\$49,417.00	33%	\$210,800
\$413,350	\$441,000	\$116,258.50	35%	\$413,350
\$441,000	–	\$125,936.00	39.6%	\$441,000

#### Married filing separately

Taxable income is:		Pay	Plus % on excess	Of the amount over
Over	But not over			
\$0	\$9,275	\$0	10%	\$0
\$9,275	\$37,650	\$927.50	15%	\$9,275
\$37,650	\$75,950	\$5,183.75	25%	\$37,650
\$75,950	\$115,725	\$14,758.75	28%	\$75,950
\$115,725	\$206,675	\$25,895.75	33%	\$115,725
\$206,675	\$233,475	\$55,909.25	35%	\$206,675
\$233,475	–	\$65,289.25	39.6%	\$233,475

Taxable income is income after all deductions (including either itemized deductions or the standard deduction) and exemptions.

Gifts of appreciated property are deductible up to 30% of AGI if made to a public charity; up to 20% of AGI if made to a private foundation.

## Additional tax numbers, including income tax and AMT deductions and exemptions

### Standard deduction

Married filing jointly/ Qualifying widower	Single	Head of household	Married filing separately
\$12,600	\$6,300	\$9,300	\$6,300

An additional standard deduction can be claimed by filers who are over age 65 or blind. The amount of each additional standard deduction is \$1,250 for married individuals and \$1,550 for single filers.

### Personal and dependency exemptions

The amount of the personal and dependency exemption is \$4,050 per individual.

### Personal exemption phase-out

The personal exemption is subject to phase-out based on the taxpayer's AGI. As a taxpayer's AGI moves through the phase-out band, the allowable personal exemption is reduced from \$4,050 to \$0.

Married filing jointly/ Qualifying widower	Single	Head of household	Married filing separately
\$311,300 – \$433,800	\$259,400 – \$381,900	\$285,350 – \$407,850	\$155,650 – \$216,900

### 2016 itemized deduction limitation

The Pease Limitation rules limit the amount of allowable itemized deductions for taxpayers above certain income thresholds (noted below). The allowable itemized deductions are reduced by 3% of the amount over the applicable threshold, not to be reduced to more than 80% of total deductions.

Tax planning opportunities exist to minimize the effect of the Pease Limitation. Managing the timing of state tax payments and other itemized deductions (e.g., large charitable donations) can be useful tax planning tools.

### Itemized deduction limitation threshold

Married filing jointly/ Qualifying widower	Single	Head of household	Married filing separately
\$311,300	\$259,400	\$285,350	\$155,650

### Charitable contributions

Contributions to qualified organizations are tax deductible up to either 50% or 30% of the taxpayer's AGI and are subject to the Pease limitation mentioned above. Qualified organizations should be able to identify if they qualify as a 50% or 30% charity. Contributions to any individual person are considered gifts and therefore are not deductible. See pages 15 and 16 for more detail on gift tax consequences.

Donations of appreciated property are valued at the fair market value on the date of transfer. Gifts of appreciated property to a public charity are deductible up to 30% of AGI; gifts of appreciated property to a private foundation are deductible up to 20% of AGI. Making gifts of appreciated property can be an excellent strategy to maximize tax deductions, but it is important to speak with a tax advisor before making such donations in order to ensure that you have a valid deduction.

## Charitable contributions in excess of AGI limitations can be carried forward up to five years.

A donor must obtain written acknowledgement for any charitable contribution exceeding \$250.

Charitable contributions in excess of AGI limitations can be carried forward up to five years.

Charitable contribution carryovers expire upon death. These deductions belong to the individual who incurred them and cannot be transferred to a spouse or the individual's estate or revocable trust upon death.

### 2016 Alternative Minimum Tax exemption

Married filing jointly/ Qualifying widower	Single	Married filing separately	Estates and trusts
\$83,800	\$53,900	\$41,900	\$23,900

### 2016 standard mileage rates

For 2016 the business, medical, and moving rates have been reduced.

Mileage rate	2015	2016
Business	\$0.575 per mile	\$0.54 per mile
Medical and moving	\$0.23 per mile	\$0.19 per mile
Charitable	\$0.14 per mile	\$0.14 per mile

### 2016 trust and estate income tax rates

Taxable income is:

Over	But not over	Pay	Plus % on excess	Of the amount over
\$0	\$2,550	\$0	15%	\$0
\$2,550	\$5,950	\$382.50	25%	\$2,550
\$5,950	\$9,050	\$1,232.50	28%	\$5,950
\$9,050	\$12,400	\$2,100.50	33%	\$9,050
\$12,400	–	\$3,206.00	39.6%	\$12,400

## 2016 health and education items

Item	Tax treatment												
Direct payment of tuition and medical expenses	There is an unlimited gift tax exclusion for amounts paid for another individual's tuition expenses (not including room, board and books) and/or unreimbursed medical expenses. Expenses must be paid directly to the educational institution or medical provider and cannot be reimbursed.												
529 Plans	An individual can make annual contributions to a 529 plan up to \$14,000 (the gift tax annual exclusion amount for 2016) and may front-load up to 5 years of annual exclusion gifts. This means that an individual could potentially contribute up to \$70,000 to a 529 plan this year and treat the gift as though it were made ratably over the current year and subsequent 4 years.												
Coverdell Education Savings Plans and Education Savings Accounts (ESAs)	The limit on annual aggregate annual contributions is \$2,000 per beneficiary. This is phased out for taxpayers with a MAGI between \$95,000 and \$110,000 (for single taxpayers), and between \$190,000 and \$220,000 (for taxpayers who are married filing jointly).												
American Opportunity Tax Credit for Higher Education Expenses	<p>The maximum credit amount is \$2,500 per eligible student per year.</p> <p>This is phased out for taxpayers with a MAGI between \$80,000 and \$90,000 (for single taxpayers), and between \$160,000 and \$180,000 (for taxpayers who are married filing jointly).</p> <p>This tax credit has been permanently extended by the PATH Act of 2015.</p>												
Tuition and fees deduction	A deduction up to \$4,000 for tuition and fees has been extended through December 31, 2016. This is phased out for taxpayers with a MAGI between \$65,000 and \$80,000 (for single taxpayers), and between \$130,000 and \$160,000 (for taxpayers who are married filing jointly).												
Interest paid on qualified higher education loans	The maximum deductible amount of student loan interest is \$2,500. This is phased out for taxpayers with a MAGI between \$65,000 and \$80,000 (for single taxpayers), and between \$130,000 and \$160,000 (for taxpayers who are married filing jointly).												
Health Savings Accounts (HSAs)	The maximum allowed annual HSA contribution amounts are \$3,350 for individuals with single coverage and \$6,750 for individuals with family coverage. An additional \$1,000 catch up is allowed for taxpayers over age 55. If both spouses are over age 55 the allowed catch up is \$1,000 per spouse.												
Eligible long-term care premiums	<p>For 2016 the deduction limitations regarding eligible long-term care premiums are:</p> <table> <tr> <th>Age attained before the close of the taxable year</th><th>Limitation on premiums</th></tr> <tr> <td>40 or under</td><td>\$390</td></tr> <tr> <td>41 – 50</td><td>\$730</td></tr> <tr> <td>51 – 60</td><td>\$1,460</td></tr> <tr> <td>61 – 70</td><td>\$3,900</td></tr> <tr> <td>71 or older</td><td>\$4,870</td></tr> </table>	Age attained before the close of the taxable year	Limitation on premiums	40 or under	\$390	41 – 50	\$730	51 – 60	\$1,460	61 – 70	\$3,900	71 or older	\$4,870
Age attained before the close of the taxable year	Limitation on premiums												
40 or under	\$390												
41 – 50	\$730												
51 – 60	\$1,460												
61 – 70	\$3,900												
71 or older	\$4,870												

## Penalties for not having minimum essential health care coverage have increased for 2016.

### What's new in 2016?

In addition to the items already mentioned, there are a few other changes for 2016 to be aware of.

#### Affordable Care Act—penalties and forms

Penalties for not having minimum essential healthcare coverage increase to the higher of \$695 per adult and 2.5% of household income. The maximum penalty per family is \$2,085.

You may receive one or more Form 1095, relating to your healthcare coverage. There are three versions of this form:

- *Form 1095-A Health Insurance Marketplace Statement:* You will receive this form if you purchased health insurance through the marketplace in 2015.
  - The deadline for the marketplace to mail these forms is February 1, 2016. If you expect a form 1095-A, you should wait to file your tax return until after the form is received. It contains information you will need to complete your return.
- *Form 1095-B Health Coverage:* This form is sent by health insurance providers to the individuals they cover.
- *Form 1095-C Employer-Provided Health Insurance Offer and Coverage:* Certain large employers send this form to certain employees. It contains information about the coverage that was offered by the employer.
  - Employers should mail Forms 1095-B and 1095-C by March 31, 2016. You do not have to wait to file until after you receive these forms. Rather, once received these should be retained with your 2015 tax records as confirmation that you had health insurance coverage for the 2015 tax year.

#### State filings for same-sex spouses

In June of 2015 the Supreme Court ruled that all states must license same-sex marriages and recognize same-sex marriages that were performed in other states. This has an impact on taxpayers in numerous states.

If you and your same-sex spouse filed your 2014 federal tax return(s) with a married filing jointly or married filing separately filing status prior to the June 26, 2015, ruling, and you were required to file as single taxpayers in your state, you may amend your 2014 tax returns if you think it will be beneficial. Filing amended 2014 state tax returns is not required.

#### ABLE accounts

Federal legislation passed in 2014 established the framework for ABLE accounts (i.e., 529A plans). These accounts are intended for certain individuals who were diagnosed with significant disabilities prior to attaining age 26. They will provide a tax deferred savings vehicle for individuals who wish to save for future expenses without having to forfeit public benefits. The PATH Act of 2015 permits individuals to choose from any state's plan, which provides more control over investment options and expenses (note that the individual states' legislatures are in various stages of enacting laws to establish ABLE Act programs). The PATH Act also permits rollovers from a 529 plan to an ABLE account if certain requirements are met.

### IRS contact information

Entity	Phone number	Website
IRS general information	800-829-1040	<a href="http://www.irs.gov">www.irs.gov</a>
National Taxpayer Advocate	877-777-4778	<a href="http://www.irs.gov/advocate">www.irs.gov/advocate</a>

### Estate and gift taxes

#### 2016 gift tax annual exclusion

- The 2016 gift tax annual exclusion is \$14,000 (\$28,000 for married couples who elect gift-splitting) to any person (other than gifts of future interests in property). This amount is excluded from the total amount of taxable gifts made during the year.
- In 2016, the first \$148,000 of gifts to a spouse who is not a citizen of the U.S. is excluded from the total amount of taxable gifts made during the year.
- Recipients of gifts from certain foreign persons may be required to report these gifts if the aggregate value of gifts received in 2016 exceeds \$15,671.

### Summary of transfer tax rates and exemption amounts

Year	Highest gift tax rate	Highest estate tax rate	Generation-skipping transfer (GST) tax rate	Lifetime gift tax exclusion amount	Estate tax exemption amount	Lifetime GST exemption amount
2008	45%	45%	45%	\$1,000,000	\$2,000,000	\$2,000,000
2009	45%	45%	45%	\$1,000,000	\$3,500,000	\$3,500,000
2010	35%	0%	0%	\$1,000,000	N/A	\$5,000,000
2011	35%	35%	35%	\$5,000,000	\$5,000,000	\$5,000,000
2012	35%	35%	35%	\$5,120,000	\$5,120,000	\$5,120,000
2013	40%	40%	40%	\$5,250,000	\$5,250,000	\$5,250,000
2014	40%	40%	40%	\$5,340,000	\$5,340,000	\$5,340,000
2015	40%	40%	40%	\$5,430,000	\$5,430,000	\$5,430,000
2016	40%	40%	40%	\$5,450,000	\$5,450,000	\$5,450,000

\*Note that estates of decedents dying in 2010 had a choice:

- The default regime—apply the retroactively reinstated 35% estate tax rate with a \$5 million exemption.
- The carryover basis regime—apply a zero estate tax rate with a limited step-up in basis available to shelter \$1.3 million of gains, and an additional \$3 million of gains on property passing to a surviving spouse.

\*\*Portability allows a surviving spouse to elect to take advantage of the unused portion of the estate tax exclusion of his or her predeceased spouse.

## Form of asset ownership and estate tax results

How property is titled	Subject to probate	% included in decedent's estate	Basis adjustment	Who inherits property	How property is transferred
Individual ownership	Yes	100%	100%	Beneficiary of choice	By will or intestacy
Tenancy by entirety	No	50%	50%	Surviving spouse	By operation of law
Joint tenancy	No	Up to 100%*	Up to 100%*	Other joint tenant	By operation of law
Tenants in common	Yes	% owned	% owned	Beneficiary of choice	By will or intestacy
Community property	Yes	50%	100%	Beneficiary of choice	By will or intestacy

\* If the joint tenants are U.S. citizen spouses, then 50% of the property is included in the deceased spouse's estate (with certain exemptions for real property owned jointly and purchased before January 1, 1977). Thus, 50% of the property receives a new cost basis. (See table above for rules concerning community property). If the joint tenants are not spouses or are not U.S. citizens then 100% is included in the estate of the first to die unless the survivor can show that he/she contributed towards the acquisition of property. The basis adjustment will be proportional to the percentage included in the decedent's estate.

**Portability allows a surviving spouse to take advantage of the unused portion of his or her deceased spouse's estate tax exemption.**

### 2016 estate and gift tax exemption and credit

	Exemption amount	Tax credit
Transfer by lifetime gift	\$5,450,000	\$2,125,800
Transfers at death	\$5,450,000	\$2,125,800

The estate and gift tax credit offsets estate and gift tax liability incurred during one's lifetime and at death. The exemption amount represents the dollar amount of assets that would result in an estate and gift tax equal to the credit amount.

Portability allows a surviving spouse to take advantage of the unused portion of the estate tax exemption of his or her predeceased spouse. The executor of the predeceased spouse's estate must make a timely election on his or her federal estate tax return to take advantage of this exemption. Portability does not apply to the Generation-Skipping Transfer Tax exemption or to state estate and inheritance tax exemptions.

### Basis and holding period of property received as a gift

The basis and holding period of property received as a gift depends on the fair market value (FMV) of the gifted property in relation to the donor's adjusted basis.

- If the FMV of the gifted property is equal to or greater than the donor's adjusted basis, the recipient's basis will be that of the donor, increased by a portion of any gift tax paid on the gift.
- If the FMV of the gifted property is less than the donor's adjusted basis, the recipient's basis depends on whether a gain or loss results when the property is ultimately sold.
  - If the property is sold at a gain, the gift recipient's basis will be the donor's adjusted basis.
  - If the property is sold at a loss, the gift recipient's basis will be the FMV at the time of the gift. No gain or loss will be recognized if the property is sold for an amount less than the donor's basis but greater than the FMV of the property on the date of the gift.

**Note:** For gifted property, the donor's holding period is generally "tacked on" to the donee's holding period.



### Basis and holding period of property inherited upon death

Property acquired from a decedent generally has a long-term holding period in the hands of the recipient, regardless of how long the decedent or the recipient actually held the property.

For assets included in the gross estate, the income tax basis of property acquired from a decedent at death is generally stepped up (or stepped down) to its value as of the date of the decedent's death (or the estate tax alternate valuation date, if elected).

### Looking ahead to 2017 filings

Certain tax return due dates are changing for the 2016 tax year (returns due in 2017). These changes are summarized in the table below.

Type of return	Due dates under prior law	Due dates under new law	
Partnerships filing Form 1065 (calendar year)	Original: April 15 Extended: September 15	Original: <b>March 15</b> Extended: September 15	
Trusts and estates filing Form 1041	Original: April 15 Extended: September 15	Original: April 15 Extended: <b>September 30</b>	
C corporations filing Form 1120 (calendar year)	Original: March 15 Extended: September 15	Before Jan. 1, 2026	After Dec. 31, 2025
		Original: <b>April 15</b> Extended: September 15	Original: <b>April 15</b> Extended: <b>October 15</b>
Exempt organizations filing Form 990	Original: May 15 1 <sup>st</sup> extension: August 15 2 <sup>nd</sup> extension: November 15	Original: May 15 Extended: <b>November 15</b>	
FinCEN Report, Form 114	Original: June 30 No extension available	Original: <b>April 15</b> Extended: <b>October 15</b>	

There is no change to the due dates for the following:

- Calendar year S-corporations filing Form 1120S.
- Individuals filing Form 1040.
- Foreign trusts with a U.S. owner filing Form 3520-A.
- Employee benefit plans filing Form 5500.
- Information returns (W-2s and 1099s).

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