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CAPITOL ASSETS

America's Real Estate & Mortgage Update

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TAX FILING AND PLANNING IN 2017

This could finally be the year that we get tax reform. The new administration is expected to make it a priority, which is in tune with the plans of its congressional supporters. What changes might we expect for individuals (corporate reform is at least as high a reform priority)? Lower tax rates is one thing we could see, starting perhaps as early as 2017 or 2018 and, probably, a simplified system with fewer brackets. This is likely to be accompanied by a reworked set of standard deductions along with child and dependent provisions. Repeal of the estate tax and eradication of the alternative minimum tax are also strong possibilities. Lowering taxes on capital gains and investment income will get close attention, too. These changes likely would come at a cost: the loss of some tax deductions and credits and the alteration of others. Quick passage of a reform plan is no certainty, given the possible impact on the budget and the controversy that some reform proposals will generate among competing interests.

TIPS FOR FILING 2016 RETURNS

Get organized early!

The threshold for using IRS Free File software has risen from last year. Taxpayers with adjusted gross incomes of $64,000 or less can use the software to fill in and submit an e-filed return. For others, the IRS offers online fillable forms that do the math.

Note: the due date for 2016 returns is Tuesday, April 18 due to quirks in the calendar.

Realize, of course, that if you don't have all the necessary information available, no system can help, no matter how user friendly. Organization is paramount. If you hire a tax professional

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TAX PLANNING FOR 2017

The estate tax exclusion rises.

The estate tax exclusion, set at $5 million in 2012, has been rising thanks to annual inflation adjustments. The exclusion rises to $5.49 million in 2017 from 2016's $5.45 million. This may soon be moot if repeal or a higher exclusion gets set by reform.

Take advantage of retirement savings.

Retirement account balances for many baby boomers nearing retirement have rebounded nicely thanks to a soaring stock market. Still, maxxing out their retirement options should remain a

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to do your return preparation, you will get their best work only if you give them all the information they need. Rushing leads to mistakes, such as math errors and incorrect entry of Social Security numbers, which can delay refunds.

Here are the basic documents and forms you will need.

Documents:

The essentials are W-2 forms from your employer(s) and 1099 forms from organizations from which you have reportable income. These must generally be mailed by January 31, except for brokerage and mutual fund 1099-B forms, which must be mailed by February 16. You'll also need the 1098 form from your mortgage lender reporting home mortgage interest and property taxes paid (if you do not pay them directly).

Sales of stocks, bonds and mutual funds will probably require you to dig back into your own records to determine the amount of gains or losses, although any purchases in 2016 will reported on your 1099-B. The purchase dates and cost basis for the investments sold will be needed to fill out Form 8949 (Sales and Other Dispositions of Capital Assets) and Schedule D.

☛ **Alert:**

FSA SPENDING ACCOUNTS HAVE MORE TIME TO USE

Health flexible spending account maximums, at $2,550 per taxpayer for 2016, will rise to $2,600 for 2017. If you have not used all of your 2016 FSA money, don't despair. The IRS allows some latitude as to when the money is spent.

Up to $500 of unused amounts remaining at the end of a plan year in a health FSA can be paid or reimbursed for medical expenses incurred in the next year if the company plan's rules permit the carryforward.

Form 8949 should be completed before going to Schedule D (Capital Gains and Losses). Then use Schedule D to figure the overall gain or loss from transactions reported on Form 8949, among other things.

If you added a dependent in 2016, you need a taxpayer identification number (for a new baby, that will be a Social Security number) for family members to claim them as a dependent. If you claim tax benefits for a resident or nonresident alien who is not eligible for an SSN, you will need an Individual Taxpayer Identification Number. File an IRS Form W-7 to get one.

For cash charitable contributions, you need either a bank record (a cancelled check or a bank or credit card statement) or a written communication from the charity showing the amount and date of the contribution. Cash contributions of $250 or more need a contemporaneous acknowledgment from the charity or you must have a payroll deduction record.

Noncash contributions of less than $250, more than $250 but less than $500, more than $500 but less than $5,000, and more than $5000 each have specific recordkeeping requirements that must be met. No deduction is allowed for contributions of used clothing or household items unless they are in at least "good" condition. An exception is made for property worth more than $500 for which you have an appraisal (a copy of which must be attached to your form).

For donations of vehicles, if the claimed value is more than $500, you must have a written acknowledgment from the charity and you must attach it to your return. The acknowledgment must include your taxpayer identification number, vehicle identification number and date of the contribution.

If the vehicle was sold, the charity also must include the price at which it was sold and certify that the sale was an arm's-length transaction. If the charity made significant use of or fixed up the vehicle, then a deduction can be taken for the fair market value, subject to additional certifications.

Forms:

The IRS no longer automatically sends out tax forms due to the cost and the fact that so many people file electronically. If you want paper forms, libraries, post offices and IRS walk-in centers still have them. Of course, you can most conveniently get them at the IRS website, **www.irs.gov**. You can also call 1-800-TAX-FORM (800-829-3676) to have forms mailed to you.

☛ **Alert:**

AMT EXEMPTION RISES

The alternative minimum tax, scourge of many taxpayers is squarely in the sights of tax reformers. If Congress is particularly efficient, it might even be eliminated for 2017, but we wouldn't count on it.

So, for 2017, the exemption is $54,300 (up from $53,900) and begins to phase out at $120,700. For married couples filing jointly, the 2017 exemption is $84,500 (up from $83,800) and the phaseout starts at $160,900.

Got all the documents and forms you need?

Here are some tips:

Valuing deductions for contributions of items to charity.
Estimating the value of household items such as old clothes, toys, appliances, etc. that you donated to charity is troublesome for most taxpayers. You can deduct the "fair market value" of these items, but how do you know what that is? Goodwill Industries (**www.goodwill.org**) and the Salvation Army (**www.salvationarmyusa.org**) both have guides that contain ranges of values for common items.

Home mortgage purchase deductible items to check.
Loan origination and discount fees (points) contained in item A. of the Closing Disclosure form) are generally deductible for the purchaser/borrower, whether or not they are paid from the borrower's funds or the seller's funds at settlement, so long as they meet specific tests.

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If these items are paid on a refinance, they usually must be amortized over the period of the loan (for example, 1/360 for each month of a 30-year loan). However, if you sold or refied again in 2016, you can deduct whatever amount remained from your earlier refi if you refinanced with a different lender. Unfortunately, if you refinanced with the same lender, the points must continue to be deducted over the life of the loan.

Be sure to add any adjustments for state or local taxes attributable to your period of ownership that may have been paid by the seller in advance. See items K. 8 and 9 on page 3 of your Closing Disclosure form. You can add them to whatever taxes that your lender reports having paid.

Make a retirement contribution.
One thing that you can still do to reduce 2016's tax liability is make a deductible contribution to a retirement account. Contributions to traditional IRAs and certain accounts for the self-employed can be made until the due date for your return.

> ☛ **Tip:**
> ### A POINT ON POINTS
> Loan discount points that you paid on a refinance are generally not deductible in the year you pay them.
>
> However, if part or all of the funds are used to improve your main home, the portion attributable to that use is deductible, provided that all the other requirements for deducting points are met.
>
> Points on a second home must be deducted rateably over the life of the loan.

The annual contribution limit for regular and spousal IRAs remains unchanged at $5,500 for 2016 and 2017 ($6,500 if you've turned 50) or your taxable compensation for the year, whichever is less.

You qualify for the full amount of the IRA if you are not covered by a retirement plan at work.

If you are covered, you can take a full deduction if your "modified" adjusted gross income is less than a threshold amount.

A partial deduction is available in 2016 for singles with MAGIs from $61,000 to $71,000 and for joint filers with MAGIs between $98,000 and $118,000. The phaseout range for both rises by $1,000 for 2017.

Don't forget loss carryovers.
If you have any capital losses that may have been carried over from prior years (those that exceeded the $3,000 limit on deductible losses), they can be used to offset last year's gains. Check your Schedule D, Capital Gains and Losses, from 2015 for the carryover amount.

Affordable Care Act rules still require attention.
For 2016, taxpayers will still need to address their health insurance coverage under Affordable Care Act rules. Most taxpayers will just check a box if they have qualifying health care coverage. Some taxpayers will need to file for an exemption. Others will have to pay if they chose not to get coverage, while some will be eligible for a tax credit based on their health insurance premiums and income. These rules may or may not be addressed in time for 2017 filing.

A surtax on the net investment income of higher-earning taxpayers is not subject to inflation adjustments, but, like several tax provisions enacted in the Affordable Care Act, could be targets for repeal. For 2016 the surtax is 3.8% on the investment income of joint filers whose adjusted gross income exceeds $250,000 and of single individuals whose AGI exceeds $200,000.

Use the simplified rule for deducting home office expenses.
Taxpayers have a simplified option for taking a deduction for home office expenses. The optional deduction is $5 per square foot for up to 300 square feet of home office space, to a maximum of $1,500. Taxpayers still have the alternative of the more complicated Form 8829 if they think the extra effort will provide a larger writeoff.

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priority while there is still time. Maximum deferrals for 401(k) and 403(b) retirement plans remain at $18,000 ($24,000 for those over 50) for 2017, the same as in 2016, for regular and catchup contributions. Take full advantage if your plan has a substantial matching contribution percentage.

The 2017 contribution limit for a nondeductible Roth IRA remains at $5,500 ($6,500 if over 50), the same as for a regular IRA. The income phaseout ranges for contributions to a Roth IRA are $118,000 to $133,000 of modified AGI for single taxpayers and $186,000 to $196,000 for joint-filing couples. For 2016 the phaseouts were $117,000-$132,000 of modified AGI for singles and $184,000-$194,000 for couples.

Make sure your donee organization is eligible.
Only donations to eligible organizations are tax-deductible. "Exempt Organization Select Check," is a searchable online database that is available on **IRS.gov.** It lists most organizations that are eligible to receive deductible contributions. In addition, the IRS advises, churches, and certain others, are eligible to receive deductible donations, even if they are not in the database.

Itemized deduction and personal exemption phaseouts rise.
Taxpayers in higher tax brackets lose a portion of their itemized deductions and personal exemptions. For 2017, married taxpayers start to lose a percentage of their personal exemptions ($4,050 for 2016 and 2017) at $313,800. For singles, the 2017 level will be $261,500. Itemized deductions begin to be lost at $287,650, $313,800 for joint filers.

Business mileage rates drop slightly for 2017.
Since gasoline prices saw low levels last year, the IRS mileage rate for business use of a vehicle in 2017 will see a half-cent decrease to 53.5 cents per mile. For medically related mileage or moving costs, the rate drops 2 cents, to 17 cents per mile, but remains at 14 cents for miles driven for charity-related purposes, which is set by statute.

REAL ESTATE TAX PROVISIONS MAY GET REFORM SCRUTINY

Current tax reform discussions that would affect individual taxpayers revolve around proposals to simplify filing and lower tax rates. Getting more individuals to file streamlined returns, perhaps even on a postcard, would mean creating higher standard deductions and, in turn, altering or eliminating some itemized deductions.

That would put a number of real estate related tax provisions on the table. Some of the more prominent ones are:

Interest deductions are allowed on mortgage balances of $1 million or less (total for a main home and a second home). Deductions for interest on up to $100,000 of home equity interest (on debt not attributable to acquisition costs or home improvements) is also permitted.

Mortgage insurance has been deductible for purchasers. This deduction is phased out for taxpayers (both single and married filing joint returns) with adjusted gross incomes over $100,000. This will need affirmative action if it is to be extended past 2016.

Real estate taxes currently can be deducted without limit, although, as with mortgage interest, they are subject to the general phaseout of itemized deductions.

Each of these deductions, for interest, mortgage insurance and property taxes on a personal residence could be limited further or eliminated entirely.

Several special carve-outs for rental real estate could also be modified or eliminated. One such rule permits certain losses from rental property to be used to offset other income (a special allowance for active participation in rental activity).

Also, there are specific rules for homeowners and investors who rent or use their rental properties. If you rent your home out for fewer than 15 days, you don't have to report the rent as income (you can't deduct any expenses as rental expenses, though).

Similarly, so long as you don't make personal use of a rental property (such as a vacation home) for more than 14 days a year, you can still take depreciation and deduct rental expenses. Generally, personal use includes use by family members, by someone who allows you to use their property in exchange or anyone to whom you don't rent at a fair price.

For more information about current law, refer to Publication 530, Tax Information for Homeowners, and Publication 527, Residential Rental Property, and watch for developments.

Income Tax Rate Schedules for 2017*

Married filing joint returns and surviving spouses:

If taxable income is:	The tax is:
Not over $18,650	10% of taxable income
Over $18,650 (but not over $75,900)	$1,865 + 15% of the excess over $18,650
Over $75,900 (but not over $153,100)	$10,452.50 + 25% of the excess over $75,900
Over $153,100 (but not over $233,350)	$29,752.50 + 28% of the excess over $153,100
Over $233,350 (but not over $416,700)	$52,222.50 + 33% of the excess over $233,350
Over $416,700 (but not over $470,700)	$112,728 + 35% of the excess over $416,700
Over $470,700	$131,628 + 39.6% of the excess over $470,700

Unmarried individuals:

If taxable income is:	The tax is:
Not over $9,325	10% of taxable income
Over $9,325 (but not over $37,950)	$932.50 + 15% of the excess over $9,325
Over $37,950 (but not over $91,900)	$5,226.25 + 25% of the excess over $37,950
Over $91,900 (but not over $191,650)	$18,713.75 + 28% of the excess over $91,900
Over $191,650 (but not over $416,700	$46,643.75 + 33% of the excess over $191,650
Over $416,700 (but not over $418,400)	$120,910.25 + 35% of the excess over $416,700
Over $418,400	$121,505.25 + 39.6% of the excess over $418,400

Heads of Household:

If taxable income is:	The tax is:
Not over $13,350	10% of taxable income
Over $13,350 (but not over $50,800)	$1,335 + 15% of the excess over $13,350
Over $50,800 (but not over $131,200)	$6,952.50 + 25% of the excess over $50,800
Over $131,200 (but not over $212,500)	$27,052.50 + 28% of the excess over $131,200
Over $212,500 (but not over $416,700)	$49,816.50+ 33% of the excess over $212,500
Over $416,700 (but not over $444,550)	$117,202.50 + 35% of the excess over $416, 700
Over $444,550	$126,950 + 39.6% of the excess over $444,550

For married persons who file separate returns, the thresholds are half of that for joint filers. To determine the tax owed, halve the bracket amount and base tax figure and apply the applicable percentage to half of the excess, if any.

*These tables are for 2017 taxes under existing law and are provided to assist you in tax planning (such as figuring estimated tax) for the current year. For 2016 tax tables, refer to your 1040 Forms and Instruction booklet or other official IRS publication.

For the most thorough job of tax planning possible, we strongly recommend consulting a tax professional.