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### **Tax News for 2016**

#### **Personal Exemptions**

The personal and dependent exemption for tax year 2016 is \$4,050, up \$50 from 2015.

#### **Standard Deductions**

The standard deduction for 2016 is \$12,600 for married persons filing jointly and qualifying widows/widowers; \$9,300 for heads of households; or \$6,300 for single taxpayers or married persons filing separately.

#### **Individual Health Care Mandate and Premium Tax Credit**

You are required to have minimum essential health coverage through an employer plan, a government program, or other plan, or pay a penalty, unless you are exempt from this requirement. The penalty amount for 2016 is the higher of (1) 2.5% of household income above your filing threshold, or (2) \$695 per person in your household (\$347.50 per dependent child under age 18), up to a maximum of \$2,085.

To help those of modest means pay premiums for coverage obtained from a government exchange (Marketplace), there's a premium tax credit. Eligibility for this advanceable, refundable tax credit depends on your household income and other factors.

#### **Preferential Rates for Capital Gains and Qualified Dividends**

Qualified dividends and long-term capital gains may escape tax entirely under the 0% rate (provided your top tax bracket is 10% or 15%), or be subject to capital gain rates of 15% or 20% depending on filing status, taxable income, and how much of the taxable income consists of qualified dividends and eligible long-term gains.

#### **Social Security Wage Base**

For 2016, the tax rate on the employee portion of Social Security is 6.2% on wages up to \$118,500, so Social Security tax withholdings should not exceed \$7,347. Medicare tax of 1.45% is withheld from all wages regardless of amount.

#### **IRA and Roth IRA Contribution Limit; Rollover Limits**

For 2016, the contribution limit for traditional IRAs and Roth IRAs is unchanged at \$5,500, or \$6,500 for those age 50 or older.

You can make only one IRA rollover (60-day rollover) every 12 months. There is no restriction on the number of direct transfers you can make each year. If you miss the 60-day deadline because of an event specified in Revenue Procedure 2016-47, you can complete the rollover by self-certifying your eligibility for this relief.

#### **First-year Expensing**

For qualifying business property placed in service in 2016, first-year expensing is allowed up to a limit of \$500,000, and the limit begins to phase out if the total cost of qualifying property exceeds \$2,010,000.

#### **IRS Mileage Allowance**

The IRS standard business mileage rate for 2016 is 54 cents a mile. The rate for medical expense and moving expense deductions is 19 cents a mile. For charitable volunteers, the mileage rate is unchanged at 14 cents a mile.

#### **Vehicle Depreciation Limit**

For a car placed in service in 2016, the first-year depreciation limit is \$3,160. For a light truck or van, the limit is \$3,560. These first-year limits are increased by \$8,000 for vehicles purchased new and used over 50% for business in 2016.

#### **Health Savings Accounts (HSAs)**

The definition of a high-deductible health plan, which is a prerequisite to funding an HSA, means a policy with a minimum deductible for 2016 of \$1,300 for self-only coverage and a maximum out-of-pocket cap on co-payments and other amounts of \$6,550. These limits are doubled for family coverage (\$2,600/\$13,100).

The contribution for 2016 is capped at \$3,350 for self-only coverage and \$6,750 for family coverage.

#### **Form 1098-T**

Educational institutions are now required to report only qualified tuition and related expenses "actually" paid, rather than choosing between amounts paid and amounts billed.

#### **Annual Gift Tax Exclusion; Gift Tax and Estate Tax Exemption**

The annual gift tax exclusion stays at \$14,000 per donee for 2016. The basic exemption amount for 2016 gift tax and estate tax purposes is \$5,450,000. The top tax rate remains at 40%.

#### **IRS cautions taxpayers NOT to count on getting a refund by a certain date**

The new law requires the IRS to hold the refund for any tax return claiming either the Earned Income Tax Credit (EITC), American Opportunity Credit (AOTC) or Additional Child Tax Credit (ACTC) until February 15. While the IRS will begin to issue these refunds starting Feb. 15, you should not count on actually seeing your refund until the week of Feb. 27. By law, the IRS must hold the entire refund, not just the portion related to the EITC, AOTC or ACTC.