IRS Changes and Updates for Tax Year 2017

Disaster Tax Relief and Airport and Airway Extension Act of 2017

This bill provides temporary tax relief to victims of Hurricanes Harvey, Irma and Maria.

- Eased casualty loss rules:
  - 10% of AGI limitation removed for personal casualty losses claimed on Schedule A.
  - Non-itemizers are allowed to claim deduction by increasing the standard deduction.
  - The $100 per-casualty floor increased to $500.
- Eased access to retirement funds:
  - Limit is up to $100,000 and applies to disasters through Jan. 1, 2019.
  - Relief from 10% early retirement plan withdrawal penalty.
  - Allowed to spread out any income inclusion over a three-year period.
  - Amounts distributed allowed to be re-contributed over a three-year period; taxpayer allowed to recoup any tax paid on distribution.
  - Re-contribution of retirement plan withdrawals allowed for cancelled home purchases or construction.
  - Retirement plan loans: maximum increased from $50,000 to $100,000, and due date of first repayment delayed by a year.
- Charitable deduction limitations suspended:
  - Contributions between Aug. 23, 2017, and Dec. 31, 2017.
  - Temporarily suspends majority of limitations on charitable contributions.
  - Exception from the overall limitation on itemized deductions for high-income taxpayers.
- Employee retention tax credit:
  - o Employers conducting business in a disaster zone and business rendered inoperable because of damage from hurricane.
  - Between disaster and Jan. 1, 2018.
  - Maximum credit equals $6,000 of wages x 40%.
- Special rule on earned income for earned income credit and child tax credit:
  - If taxpayer earned income for the tax year is less than the preceding year, he/she may use income from preceding year.

Due Dates for Tax Year 2017

Returns and payments otherwise due on April 15, 2018, are timely if filed or paid by Tuesday, April 17, 2018, due to the occurrence of Emancipation Day and Patriot's Day on Monday, April 16.

- Earned Income Credit & Advanced Child Tax Credit: no refund issued before Feb. 15.
- Victims of Hurricanes Harvey, Irma and Maria and certain California wildfires: the IRS extended tax year 2016 deadlines for individual and business returns to Jan. 31, 2018.

Qualifying Widow(er) Filing Status

A qualifying child no longer must be a dependent, and the name must be provided if not a dependent.

- The Qualifying Widow(er) filing status will work like Head of Household.
- The 1040 return will include a block to include the non-dependent.

Some Taxpayers May Need New Individual Taxpayer Identification Numbers (ITINs)

Any individual filing a U.S. tax return is required to report a taxpayer ID number on the return.

- For taxpayers who are not eligible for a Social Security number but must file a return, the IRS issues ITINs.

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- An ITIN will expire if an individual fails to file a return or is not included as a dependent on another return for three consecutive years.
- Taxpayers issued ITINs before 2013 are now required to renew through a staggered schedule between 2017 and 2020.

Education Credits

A taxpayer ID number of the educational institution is required on Form 8863, *Education Credits: American Opportunity and Life Earning Credits*, even if the institution didn't use Form 1098-T. This provision was delayed until tax year 2017.

- Institutions must report on Form1098-T only qualified tuition and related expenses paid.
- Taxpayers must receive a payee statement (Form1098-T or information required on form).

Extender Provisions/Expired as of Dec. 31, 2016 (usually get extended by Congress):

- Extension of above-the-line deduction for qualified tuition and related expenses.
- Extension and modification of exclusion from gross income of discharge of qualified principal residence indebtedness.
- Extension of mortgage insurance premiums treated as qualified residence interest.
- Extension and modification of empowerment zone tax incentives.
- Extension and modification of credit for nonbusiness energy property.
- Credits for wind energy property and geothermal heat pump property.
- Extension of fuel cell motor vehicle credit.

IRS Statement on Health Care Reporting Requirement

For the 2018 filing season, the IRS won't accept the electronic tax return until the taxpayer indicates whether he/she had coverage, an exemption or will make a shared responsibility payment. Returns filed on paper that don't address the health coverage requirements may be suspended pending the receipt of additional information, and refunds may be delayed.

Small Employer Health Reimbursement Arrangements (HRAs) Exempted from Group Health Plan Requirements

HRAs include employer reimbursed medical expenses, including insurance premiums up to a certain amount. Reimbursement is excludable from an employee's income. Beginning in 2017, a small employer can provide an HRA without facing an ACA penalty for failing to provide insurance.

2017 Standard Mileage Rates

Beginning Jan. 1, 2017, the standard mileage rates for the use of a vehicle were:

- 54 cents per mile for business miles driven, down from 55 cents for 2016.
- 17 cents per mile driven for medical or moving purposes, down from 19 cents for 2016.
- 14 cents per mile driven in service of charitable organizations.

Inflation Adjustments

The **standard deduction** for married filing jointly rises to $12,700 for tax year 2017, up $100 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to $6,350 in 2017, up from $6,300 in 2016. For heads of households, the standard deduction will be $9,350 for tax year 2017, up from $9,300 for tax year 2016.

IRS Changes and Updates for Tax Year 2017

- The **personal exemption** for tax year 2017 remains as it was for 2016: $4,050. However, the exemption is subject to a phase-out that begins with adjusted gross incomes of $261,500 ($313,800 for married couples filing jointly). It phases out completely at $384,000 ($436,300 for married couples filing jointly).
- For tax year 2017, the 39.6 percent tax rate affects single taxpayers whose income exceeds $418,400 ($470,700 for married taxpayers filing jointly), up from $415,050 and $466,950, respectively. The other **marginal tax rates** – 10, 15, 25, 28, 33 and 35 percent – and the related income tax thresholds for tax year 2017 are described in the revenue procedure.
- The **limitation for itemized deductions** to be claimed on tax year 2017 returns begins with incomes of $287,650 or more ($313,800 for married couples filing jointly).
- For tax year 2017, the **foreign earned income exclusion** is $102,100, up from $101,300 for tax year 2016.
- The **AMT exemption** amount for tax year 2017 is $54,300 and begins to phase out at $120,700 (for married couples filing jointly for whom the exemption begins to phase out at $160,900). The 2016 exemption amount was $53,900 ($83,800 for married couples filing jointly). For tax year 2017, the 28 percent tax rate applies to taxpayers with taxable incomes above $187,800 ($93,900 for married individuals filing separately).
- The tax year 2017 **maximum Earned Income Credit** amount is $6,318 for taxpayers filing jointly who have three or more qualifying children, up from a total of $6,269 for tax year 2016. The revenue procedure has a table providing maximum credit amounts for other categories, income thresholds and phase-outs.
- For tax year 2017 participants who have self-only coverage in a **medical savings account,** the plan must have an annual deductible that is not less than $2,250, but not more than $3,350; these amounts remain unchanged from 2016. For self-only coverage, the maximum out of pocket expense amount is $4,500, up $50 from 2016. For tax year 2017 participants with family coverage, the floor for the annual deductible is $4,500, up from $4,450 in 2016. However, the deductible cannot be more than $6,750, up $50 from the limit for tax year 2016. For family coverage, the out of pocket expense limit is $8,250 for tax year 2017, an increase of $100 from tax year 2016.
- For tax year 2017, the adjusted gross income amount used by joint filers to determine the reduction in the **Lifetime Learning Credit** is $112,000, up from $111,000 for tax year 2016.
- **Estates of decedents** who die during 2017 have a basic exclusion amount of $5.49 million, up from a total of $5.45 million for estates of decedents who died in 2016.

Retirement Contributions – Inflation Adjustments

- The **401(k) contribution limit** remains unchanged at $18,000 for 2017.
- For single taxpayers covered by a workplace retirement plan, the phase-out range is $62,000 to $72,000, up from $61,000 to $71,000.
- For married couples filing jointly where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $99,000 to $119,000, up from $98,000 to $118,000.
- For an IRA contributor who is not covered by a workplace retirement plan and married to someone who is covered, the deduction is phased out if the couple’s income is between $186,000 and $196,000, up from $184,000 and $194,000.
- For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

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- The income phase-out range for taxpayers making contributions to a Roth IRA is $118,000 to $133,000 for singles and heads of household, up from $117,000 to $132,000. For married couples filing jointly, the income phase-out range is $186,000 to $196,000, up from $184,000 to $194,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.
- The income limit for the saver's credit (also known as the retirement savings contributions credit) for low- and moderate-income workers is $62,000 for married couples filing jointly, up from $61,500; $46,500 for heads of household, up from $46,125; and $31,000 for singles and married individuals filing separately, up from $30,750.
- The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $18,000.
- The catch-up contribution limit for employees age 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $6,000.
- The limit on annual contributions to an IRA remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains at $1,000.
- The limitation for defined contribution plans under Section 415(c)(1)(A) increased in 2017 from $53,000 to $54,000.
- The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) remains unchanged at $18,000.
- The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at $6,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at $3,000.
- The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at $12,500.
- The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations remains unchanged at $18,000.
- The deductible amount under Section 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at $5,500.
- The applicable dollar amount under Section 219(g)(3)(B)(i) for determining the deductible amount of an IRA contribution for taxpayers who are active participants filing a joint return or as a qualifying widow(er) increased from $98,000 to $99,000. The applicable dollar amount under Section 219(g)(3)(B)(ii) for all other taxpayers who are active participants (other than married taxpayers filing separate returns) increased from $61,000 to $62,000. If an individual or the individual's spouse is an active participant, the applicable dollar amount under Section 219(g)(3)(B)(iii) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains $0. The applicable dollar amount under Section 219(g)(7)(A) for a taxpayer who is not an active participant but whose spouse is an active participant is increased from $184,000 to $186,000.

Sources: proconnect.intuit.com & irs.gov