Supplement to J. K. Lasser's 1,001 Deductions and Tax Breaks 2016

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Since the publication of the book, Congress has taken action that impacts 2015 returns. In addition, there have been court cases and IRS pronouncements that also affect 2015 returns as well as planning for taxes in 2016.

Here are the key developments, some of which can apply to your 2015 return while others impact your 2016 withholding and estimated taxes. The changes presented in this Supplement are tied to the chapters in the book.

Introduction

Above-the-line deductions extended. The above-the-line deduction for educator expenses of up to $250, which had expired at the end of 2014, has been extended retroactively for 2015; it is now permanent, and may be increased for 2016 by an inflation adjustment. The deduction for tuition and fees is also extended retroactively for 2015 and applies for 2016 as well.

Standard deduction amounts. The basic standard deduction amounts have been set for 2016:

- Married filing jointly and surviving spouses: $12,600 (unchanged from 2015).
- Heads of households: $9,300 (up $50 from 2015).
- Singles and married filing separately: $6,300 (unchanged from 2015).

Additional standard deduction amounts. For 2016, the additional standard deduction amount for age and/or blindness remains unchanged at $1,550 for single filers and heads of households, and at $1,250 for married filers (filing jointly or separately) and surviving spouses.

Overall limit on itemized deductions. High-income taxpayers lose a portion of their itemized deductions due to a phase-out. For 2016, the phase-out begins when adjusted gross income exceeds $259,400 for singles, $285,350 for heads of households, $311,300 for married filing jointly and surviving spouses, and $155,650 for married filing separately.

Chapter 1—Your Family

Personal and dependency exemptions. The exemption amount has increased for 2016 to $4,050 (up $50 from 2015). Exemptions are phased out in 2016 beginning at the same threshold as shown in the *Introduction* above for the itemized deduction phase-out.

Earned income credit. The earned income credit amounts, including adjusted gross income limits, have been increased for 2016. What's more, the favorable features that had been temporarily added to the earned income credit, such as a higher limit for those with three or more qualifying children, have been made permanent.

Child tax credit. For purposes of the additional (refundable) child tax credit, there is an earnings threshold of $3,000. This reduced limit was temporary, but has been made permanent.

Adoption credit. The adoption credit limit for 2016 increases to $13,460 (up $60 from 2015). The modified adjusted gross income limits on eligibility for the credit have also been increased slightly for 2016.

Chapter 2—Medical Expenses

Premium tax credit. This refundable tax credit is designed to help individuals pay for the cost of mandated health coverage for themselves and their dependents To be eligible for the premium tax credit, your household income must be at least 100%, but no more than 400% of the federal poverty line for your family size. Eligibility for the credit in 2016 is based on 2015 federal poverty guidelines as shown in the following table.

Poverty guidelines for the 48 contiguous states and District of Columbia*

Persons in the family/household	Poverty guideline (100%)
1	$11,770
2	$15,930
3	$20,090
4	$24,250
5	$28,410
6	$32,570
7	$36,730
8	$40,890
More than 8	Add $4,160 for each additional person

*The guidelines are higher in Alaska and Hawaii

Individual health care mandate for 2016. Individuals who fail to maintain minimum essential health coverage can be subject to a tax penalty in 2016. The penalty amount for 2016 is increased to the *higher* of:

- 2% of your household income not to exceed the total yearly premium for the national average price of a Bronze plan sold through the government Marketplace.
- $695 per adult ($347.50 per dependent under age 18) in your household, up to a maximum of $2,085.

Itemized medical expenses. For 2016, the rate for medical driving is 19¢ per mile (down from 23¢ per mile in 2015).

Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased slightly in 2016 for each age group.

Flexible spending arrangements (FSAs). In 2016, the maximum salary contribution to an FSA is capped at $2,550 (the same as in 2015).

Health savings accounts and Archer medical savings accounts. The contribution limits for HSAs and MSAs in 2016 have been increased slightly.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2016 is $340 (up from $330 in 2015); excess amounts are taxable to the extent they exceed actual long-term care costs.

ABLE accounts. This type of savings account is designed to pay certain costs of a disabled individual without costing him or her eligibility for government assistance. The IRS has made it easier for states to set up these accounts by eliminating residency requirements and addressing other concerns. In 2015, the following states enacted legislation on ABLE accounts so that they may go live in 2016.

Alabama	Louisiana	Ohio
Arkansas	Maryland	Oregon
California	Michigan	Rhode Island
Colorado	Minnesota	Tennessee
Connecticut	Missouri	Texas
Delaware	Montana	Utah
Florida	Nebraska	Vermont

Hawaii	Nevada	Virginia
Illinois	New York	Washington
Iowa	North Carolina	West Virginia
Kansas	North Dakota	Wisconsin

Other states and the District of Columbia likely will enact legislation in 2016.

Chapter 3—Education Costs

American opportunity credit. There is no modified adjusted gross income limit change in 2016 for eligibility to claim the credit. The credit, which had been scheduled to expire in 2017, has been made permanent.

Lifetime learning credit. The modified adjusted gross income limits on eligibility to claim the credit have been increased slightly for 2015.

Tuition and fees deduction. The above-the-line deduction for tuition and fees of up to $4,000 has been extended retroactively for 2015. This deduction will apply for 2016 as well.

Student loan interest. There is no modified adjusted gross income limit change in 2016 for eligibility to claim the deduction.

Interest on U.S. savings bonds. The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased for 2016.

529 plans. The basic rules have not been changed for these education savings plans. However, distributions for computers and technology (e.g., Internet access) are now treated as a qualified education expense. Thus, distributions in 2015 and later to pay for software are tax free. However, this rule does not cover costs related to gaming unless part of a course of study.

Distributions starting in 2016 that are rolled over to 529 plans are tax-free distributions.

Chapter 4—Your Home

Mortgage insurance. The ability to treat mortgage interest as deductible mortgage interest has been extended retroactively for 2015. This rule will apply as well for 2016.

Cancellation of mortgage debt. The exclusion for income resulting from the cancellation of debt up to $2 million on a principal residence has been extended retroactively for 2015. This exclusion will also apply for cancellation of debt in 2016, as well as cancellation of debt in 2017 that results from a contract that was binding by the end of 2016.

Distressed homeowners. The IRS has created a safe harbor for determining the amount of mortgage interest a distressed homeowner could claim. The safe harbor had been set to run only through 2015; it has been extended through 2017. More specifically, such a homeowner may deduct the lesser of:

- Actual home mortgage interest payments to the mortgage servicer or the state housing finance agency (HFA).
- Amounts shown on Form 1098 for mortgage interest received, real property taxes, and mortgage insurance premiums (if otherwise deductible by the homeowner).

Moving expenses. Use of a vehicle for deductible moving purposes in 2016 is figured at the rate of 19¢ per mile (down from 23¢ per mile in 2015).

Energy improvements. The residential energy property credit for making certain improvements, such as adding insulation or installing energy-efficient windows and exterior doors, has been extended retroactively for 2015. It will apply for 2016 as well. However, there is a $500 lifetime cap on this credit, so a homeowner who used the full credit previously is barred from any additional credit.

Chapter 5—Retirement Savings

Traditional IRAs and Roth IRAs. The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are generally unchanged for 2016. The MAGI limits for Roth IRAs have increased slightly for 2016. There is no change to the basic contribution limit of $5,500 or to the additional “catch-up” contribution limit of $1,000 for those who are at least 50 years old by the end of 2016.

401(k) and similar plans. The 2016 elective deferral contribution limit and the additional contribution limit for those age 50 or older by the end of the year for 2016 is unchanged at $18,000 and $6,000, respectively.

Self-employed retirement plans. Contribution, benefit, and other limits for these plans for 2016 are unchanged from 2015 (there are some modest increases to certain limits).

Simplified Employee Pension plans (SEPs). Contribution limits for these plans for 2016 are the same as in 2015. The earnings threshold for including an employee in a SEP is also unchanged at $600.

Savings Incentive Match Plans for Employees (SIMPLEs). The 2016 contribution limit for SIMPLEs of and the additional contribution limit for those age 50 or older by the end of the year are $12,500 and $3,000 respectively (unchanged from 2015).

MyRAs. These accounts are like mini-Roth IRAs because funds go in on an after-tax (nondeductible) basis but can become tax-free income for the future. The pilot program for these special savings accounts was completed in 2015 and the program went nationwide. For details on MyRAs from an employer perspective, see a notice from the Treasury at https://www.treasury.gov/press-center/press-releases/Pages/jl0250.aspx. You can fund your contributions by:

- Payroll withholding if your employer agrees to withhold from your paycheck and remit the funds to the Treasury.
- Direct transfer from your bank account. At this time, you cannot write a check for your contributions.
- Application of your federal income tax refund toward a contribution. You can direct the IRS to send your refund to your MyRA account.

Retirement saver's credit. The MAGI limits on eligibility to claim the retirement saver's credit for contributions to IRAs, 401(k)s, and similar plans have been increased slightly for 2016.

Charitable transfers of IRA distributions. The rule allowing those age $70^1/_2$ and older to transfer up to $100,000 of IRA funds directly to a public charity on a tax-free basis has been retroactively extended for 2015. The rule has been made permanent, so eligible taxpayers can plan their required minimum distributions for 2016 and beyond with this tax-free transfer option in mind.

Chapter 6—Charitable Giving

Real estate donated for conservation purposes. The favorable percentage limitations on donations of realty for conservation purposes (50% of the contribution base, or 100% for farmers and ranchers) have been extended retroactively for 2015. The rule has been made permanent.

IRA transfers to charity. See Chapter 5.

Chapter 7—Your Car

Business use of your personal car. The IRS announced that the standard mileage rate, used in lieu of deducting the actual costs of business driving, in 2016 is 54¢ per mile (down from 57.5¢ per mile in 2015).

The dollar limits on depreciating passenger cars, trucks, and vans placed in service in 2016, which applies when the standard mileage rate is not used, are projected to be the same as in 2015 for passenger cars, and up slightly (other than for the third year) for light trucks and van (check with the IRS for the dollar limits for 2016).

- Passenger cars: $3,160 ($11,160 if the car is new and used over 50% for business) for the first year; $5,100 for the second year; $3,050 for the third year; and $1,885 for each year thereafter.
- Light trucks and vans: $3,560 ($11,560 if the vehicle is new and used over 50% for business) for the first year; $5,700 for the second year; $3,350 for the third year; and $2,075 for each year thereafter.

Electric vehicles. The credit for 2-wheel vehicles (which expired at the end of 2013), has been extended for 2015 and 2016 (but not for 2014). However, the credit for 3-wheel vehicles has not been extended. The credit for 4-wheel vehicles continues to apply for 2015.

Chapter 8—Investing

Gain on the sale of small business stock. There is a 100% exclusion for gain from the sale of qualified stock acquired after September 27, 2010. This rule had been temporary but is now permanent. However, for gains from the sale of such stock in 2015, the 50% or 75% exclusion may apply, depending on when you acquired the stock.

Gain on inherited property. For purposes of determining gain or loss on the sale of inherited assets, heirs enjoy a stepped-up basis; the value of the assets at the time of death of the person from whom assets are inherited is the tax basis. A new law in 2015 does not change the stepped-up basis rule but requires executors to provide basis information to heirs so that the heirs use the same basis as the estate used for federal estate tax purposes. Executors are not required to provide this information before February 29, 2016.

Gain on empowerment zone assets. The exclusion of gain on the sale of empowerment zone assets has been extended retroactively for 2015. The rule applies for 2016 as well.

Chapter 9—Travel

Business travel per diem rates. The maximum federal per diem rate for travel starting October 1, 2015, through September 30, 2016, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $140 per day ($89 for lodging and $51 for M&IE). These rates are higher than the prior 12-month period when the rate was $129 per day ($83 for lodging and $46 for M&IE). The per diem rates for travel to certain areas have been increased. These rates can be found at www.gsa.gov (click on Per Diem Rates).

The high-low substantiation rates for areas within CONUS for the period October 1, 2015, through September 30, 2016, are $275 for travel to high-cost localities and $185 for travel to all other areas with CONUS. Of these rates, the meal portion is $68 for high-cost areas and $57 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2015-63 for details).

Driving your car for medical or moving purposes. The IRS standard mileage rate for 2016 is 19¢ per mile (down from 23¢ per mile in 2015).

Chapter 10—Entertainment

Standard meal allowance. The rates are set for the government's fiscal year beginning October 1, 2015, through September 30, 2016:

- *Maximum allowance for meals and incidental expenses.* The maximum federal allowance for travel in CONUS for the period October 1, 2015, through September 30, 2015, is the daily rate of $51 ($55, $59, $64, $69, and $74 for higher-cost areas).
- *High-low substantiation rate.* The IRS-set rates for meal and incidental costs within CONUS from October 1, 2015, through September 30, 2016, increased to $68 per day for high-cost areas and $57 per day for other areas.
- *Meal allowance for transportation industry workers.* The IRS-set rate for CONUS increased to $63 per day for the period from October 1, 2015, through September 30, 2016; the rate for travel outside of CONUS also increased to $68 per day.

Chapter 11—Real Estate

Deduction for energy-efficient commercial buildings. The ability to deduct up to $1.80 per square foot for an energy-efficient building has been extended retroactively for 2015. The rule will apply for 2016 as well.

Special breaks for certain disaster victims. Unfortunately, natural and other disasters continue to occur. There are no special breaks for certain disaster victims in 2015 as there were in the past for victims of Hurricane Katrina and other specified disasters. Whether there will be special breaks for disasters occurring in 2016 remains to be seen.

Chapter 13—Insurance and Catastrophes

Disaster losses. Find a list of all federal disaster areas for 2015 from FEMA at https://www.fema.gov/disasters/grid/year/2015.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2016 is $340 (up from $330 in 2015); excess amounts are taxable to the extent they exceed actual long-term care costs.

Chapter 14—Your Job

Educator expenses. See the *Introduction*.

Fringe benefits. A couple of benefits have been impacted for 2016:

Transportation fringe benefits. Parity between the exclusions for free parking and commuter passes and vanpooling (collectively called transportation fringe benefits) has been made permanent for 2015 and beyond. The monthly exclusion amount for 2016 is $255 (up from $250 per month in 2015).

Adoption assistance. The exclusion amount in 2016 for employer-provided adoption assistance is $13,460 (up $60 from 2015).

Income earned abroad. The maximum foreign earned income exclusion for 2016 has been increased to $101,300.

Chapter 15—Your Business

Equipment purchases. Three key changes impact write-offs for equipment purchases in 2016:

- *First-year expensing.* The $500,000 limit (with the phase-out starting at $2 million) has been made permanent. For 2016, these dollar amounts may be adjusted for inflation (the IRS has yet to announce any increase).
- *Bonus depreciation.* Bonus depreciation has been retroactively extended for 2015; it will apply through 2019. The rate for bonus depreciation in 2015, 2016 and 2017 is 50%; the rate will be 40% in 2018 and 30% in 2019.
- *De minimis safe harbor rule.* A business can elect to treat costs for equipment purchases as materials and supplies rather than capital acquisitions. This election allows an immediate deduction. For most small businesses (those without an SEC filing, an audited financial statement, or filing with another government agency other than the SEC or IRS), the deduction in 2015 is capped at $500 per item or invoice; for 2016 it is $2,500 per item or invoice.

Employment-related tax credits. The following credits have been retroactively extended for 2015. The parenthetical information shows the period for which the credit continues to apply:

- Work opportunity credit (extended through 2019). Starting in 2016, there is a new targeted category for the long-term unemployed (at least 27 weeks).
- Empowerment zone credit (extended for 2015 and 2016).
- Indian employment credit (extended for 2015 and 2016).

- Wage differential payment credit for payments to certain activated reservists (the credit has been made permanent).

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2016 is $118,500 (unchanged from 2015).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2016 it is 54¢ per mile (down from 57.5¢ per mile in 2015).

Those who own their vehicles and use the standard mileage rate for 2016 must reduce the vehicle's basis by 24¢ per mile (the same rate as in 2015).

Business-related tax credits. The following credits have been retroactively extended for 2015 (in addition to the employment-related credits noted earlier):

- Energy-efficient home credit (extended through 2016).
- New markets credit (extended through 2019).
- Research credit (the credit has been made permanent). Starting in 2016, the credit can be used as an offset to the employer's Social Security tax liability up to $250,000 rather than as an offset to income taxes. This option applies only in limited cases (as explained in detail in next year's edition of this book).
- Alternative fuel vehicle refueling property credit (extended through 2016).

Chapter 16—Miscellaneous Items

State and local sales taxes. For those who itemize their personal deductions, the option to deduct state and local sales taxes instead of state and local income taxes has been extended retroactively for 2015. The rule has been made permanent.

Gifts you receive. The annual exclusion amount for 2016 is $14,000 per recipient (the same as in 2015). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

Alternative minimum tax (AMT). The AMT exemption amounts are up slightly, as shown in the following table:

Filing status	2016 exemption	2015 exemption
Married filing jointly/surviving spouse	$83,800	$83,400
Single/head of household	$53,900	$53,600
Married filing separately	$41,900	$41,700

Exemption phase-out. The exemption amounts for 2016 start to phase out when alternative minimum taxable income (AMTI) exceeds $119,700 for singles and heads of households, $159,700 for married filing jointly and surviving spouses, and $79,850 for married filing separately.

Start of 28% rate. The 26% AMT rate for 2016 applies to alternative minimum taxable income up to $186,300 ($93,150 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

ABLE accounts. See Chapter 2.

Identity theft protection. If you receive identity theft protection services (e.g., credit reports and credit monitoring, identity theft protection insurance, identity theft restoration services) because you are an employee of a company that has been hacked or a consumer of business that has been hacked, the value of this benefit is tax free.

Bonus—Checklist of Provisions Expiring in 2016

While the Protecting Americans from Tax Hikes (PATH) Act of 2015, which was signed into law on December 18, 2015, extended many provisions retroactively for 2015 as explained throughout this Supplement, in some cases the extensions run only through 2016. Congress is considering comprehensive tax reform in 2016. Whether this will happen, and whether it will include extensions for expired provisions or a permanent fix for some or all of them, remains to be seen. The following have been referenced within the chapters to which they relate. They are included here as a handy checklist. The date in parenthesis indicates the expiration of the rule.

1. Bonus depreciation—50% deduction through 2017; 40% in 2018; 30% in 2019 (2019)
2. Cancellation of home mortgage interest on a principal residence—exclusion (2016)
3. Energy-efficient buildings—deduction up to $1.80 per square foot (2016)
4. Indian employment credit (2016)
5. Mortgage insurance premiums—deduction for premiums as mortgage interest (2016)
6. New markets credit (2019)
7. Nonbusiness energy improvements for a principal residence—tax credit (2016)
8. Tuition and fees—deductible as an adjustment to gross income (2016)
9. Work opportunity credit (2019)