# Supplement to J. K. Lasser’s 1,001 Deductions and Tax Breaks 2017

###### By Barbara Weltman

Since the publication of the book, Congress has taken action that impacts 2016 returns. In addition, there have been court cases and IRS pronouncements that also affect 2016 returns as well as planning for taxes in 2017.

Here are the key developments, some of which can apply to your 2016 return while others impact your 2017 withholding and estimated taxes. The changes presented in this Supplement are tied to the chapters in the book. It should be noted that comprehensive tax reform that could be taken this year may impact any of the following tax rules for 2017, but this is what is known now.

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## Introduction

***Above-the-line deductions.*** The above-the-line deduction for educator expenses of up to $250, which can be adjusted for inflation, will remain unchanged for 2017. The deduction for tuition and fees expired at the end of 2016. Whether it will be extended for 2017 depends on the outcome of comprehensive tax reform this year.

***Standard deduction amounts.*** The basic standard deduction amounts have been set for 2017:

* Married filing jointly and surviving spouses: $12,700 (up from $100 from 2016).
* Heads of households: $9,350 (up $50 from 2016).
* Singles and married filing separately: $6,350 (up $50 from 2016).

*Additional standard deduction amounts.*For 2017, 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 2017, the phase-out begins when adjusted gross income exceeds $261,500 for singles, $287,650 for heads of households, $313,800 for married filing jointly and surviving spouses, and $156,900 for married filing separately.

## Chapter 1—Your Family

***Personal and dependency exemptions.*** The exemption amount remains at $4,050 for 2017. Exemptions are phased out in 2017 beginning at the same threshold as shown in the *Introduction* above for the itemized deduction phase-out.

***Child tax credit.*** The credit of up to $1,000 for a taxpayer with income below a set limit applies only for a dependent child under the age of 17. An appellate court has confirmed that the credit cannot be claimed for a child over this age limit even though the child is permanently and totally disabled and is the taxpayer’s dependent.

***Earned income credit.*** The earned income credit amounts, including adjusted gross income limits, have been increased for 2017. 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.

As the term implies, the credit is based on earned income, which includes compensation from employment or net earnings from self-employment. A court has ruled that term does not include long-term disability payments.

***Adoption credit.*** The adoption credit limit increases to $13,570 for 2017 (up $110 from 2016). The modified adjusted gross income limits on eligibility for the credit have also been increased slightly for 2017.

## 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 2017 is based on 2016 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 | $11,880 |
| 2 | $16,020 |
| 3 | $20,160 |
| 4 | $24,300 |
| 5 | $28,440 |
| 6 | $32,580 |
| 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 2017.*** Unless the individual mandate under the Affordable Care Act is repealed, then individuals who fail to maintain minimum essential health coverage may be subject to a tax penalty in 2017. The penalty amount for 2017 is unchanged at the *higher* of:

* 2.5% of your household income not to exceed the total yearly premium for the national average price of a Bronze plan sold through a 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 2017, the IRS medical expense mileage rate is 17¢ per mile (down from 19¢ per mile in 2016).

***Long-term care coverage.*** The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased slightly in 2017 for each age group.

***Flexible spending arrangements (FSAs).*** In 2017, the maximum salary contribution to an FSA is capped at $2,600 (up from $2,550 in 2016).

***Health savings accounts and Archer medical savings accounts.*** The contribution limits for HSAs and MSAs in 2017 have been increased slightly.

Before 2017, the bronze plans on the government Marketplace generally amounted to a high-deductible health plan, which is the prerequisite for having a health savings account (HSA). In 2017, the bronze plans on the federal Marketplace are not HDHPs. Some of the state Marketplaces still have the requisite HDHP plans.

***Accelerated death benefits.*** For chronically ill individuals, the daily dollar limit excludable from gross income for 2017 is $360 (up from $340 in 2016); 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. As of January 2017, the following ABLE accounts have gone live in the following states: Florida, Nebraska, Ohio, Oregon, and Tennessee.

***Medicare.*** About 70% of beneficiaries, those who fall under “hold harmless” protection, are paying a little more (the amount of their Social Security benefit increase) for Part B in 2017; premiums are about $109 per month (on average) compared with $104.90 per month in 2016. The 30% not held harmless have a monthly premium of $134. The following tables (one for Part B and one for Part D) shows the 2017 surcharges for higher-income taxpayers, which is based on modified adjusted gross income (MAGI) in 2015.

**Part B Premiums:**

|  |  |  |  |
| --- | --- | --- | --- |
| 2015 MAGI for joint filers | 2015 for other filers\* | Part B premium surcharge | Total monthly Part B premium for 2017 |
| Up to $170,000 | Up to $85,000 | Zero | About $109 if held harmless; $134 if not held harmless |
| $170,001 to $214,000 | $85,001 to $107,000 | $53.50 | $187.50 |
| $214,001 to $320,000 | $107,001 to $160,000 | $133.90 | $267.90 |
| $320,001 to $428,000 | $160,001 to $214,000 | $214.30 | $348.30 |
| $428,001 and higher | $214,001 and higher | $294.60 | $428.60 |

\*Married persons filing separately but who do not live apart for the entire year are subject to a monthly premium of $348.30 if 2015 MAGI was over $85,000 and up to $129,000, or $428.60 if 2015 MAGI was over $129,000.

**Part D premiums:**

|  |  |  |
| --- | --- | --- |
| 2015 MAGI for joint filers | 2015 for other filers\* | Total monthly Part D premiums for 2017 |
| Up to $170,000 | Up to $85,000 | Plan premium (no surcharge) |
| $170,001 to $214,000 | $85,001 to $107,000 | $13.30 + plan premium |
| $214,001 to $320,000 | $107,001 to $160,000 | $34.20 + plan premium |
| $320,001 to $428,000 | $160,001 to $214,000 | $55.20 + plan premium |
| $428,001 and higher | $214,001 and higher | $76.20 + plan premium |

\*Married persons filing separately but who do not live apart for the entire year are subject to a monthly premium of $55.20 if 2015 MAGI was over $85,000 and up to $129,000, or $76.20 if 2015 MAGI was over $129,000.

## Chapter 3—Education Costs

***American opportunity credit.*** There is no modified adjusted gross income limit change in 2017 for eligibility to claim the credit.

***Lifetime learning credit.*** The modified adjusted gross income limits on eligibility to claim the credit have been increased slightly for 2017.

***Tuition and fees deduction.*** The above-the-line deduction for tuition and fees of up to $4,000 expired at the end of 2016. It is unclear whether it will be extended for 2017.

***Student loan interest.*** There is no modified adjusted gross income limit change in 2017 for eligibility to claim the deduction for singles; the phase-out starts at $65,000 and is completed at $80,000. The MAGI phase-out for joint filers is $5,000 higher; it starts at $135,000 and is completed at $165,000.

***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 2017.

## Chapter 4—Your Home

***Mortgage interest.*** Last year an appellate court said that the dollar limit for debt for purposes of deducting mortgage interest applies per owner when 2 or more owners are not married to each other. Now the IRS has agreed to follow this decision.

**Example:** Two siblings co-own a home that they bought using a mortgage of $2 million; they are equal owners. Each sibling can fully deduct their share of mortgage interest because each is treated as having acquisition debt of $1 million.

***Mortgage insurance.*** The ability to treat mortgage interest as deductible mortgage interest expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Cancellation of mortgage debt.*** The exclusion for income resulting from the cancellation of debt up to $2 million on a principal residence expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Moving expenses.*** Use of a vehicle for deductible moving purposes in 2017 is figured at the rate of 17¢ per mile (down from 19¢ per mile in 2016).

***Home sale exclusion.*** Usually, the exclusion of up to $250,000 of gain on the sale of a principal residence ($500,000 for joint filers) applies if the home has been owned and used for 2 out of 5 years preceding the date of sale. However, a partial exclusion can be claimed if the sale is because of a change in employment, health, or an unforeseen circumstance. The IRS ruled privately that a couple who had to sell their condominium because of the birth of a second child could use the partial exclusion; this was an unforeseen circumstance.

***Energy improvements.*** The residential energy property credit for making certain improvements, such as adding insulation or installing energy-efficient windows and exterior doors, expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

## 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 increased slightly for 2017, as are the MAGI limits for Roth IRAs. 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 2017.

***Rollovers.*** A distributions from IRA can be rolled over tax free to another IRA or qualified retirement plan if it is done within 60 days. If you miss the deadline, the distribution becomes taxable. In the past, you could have asked the IRS for an extension of time to complete a rollover by submitting a private letter ruling. Now the IRS has created a self-certification option for an automatic extension. There are 3 conditions for using self-certification:

* You were not previously denied a request for an extension to make a rollover
* The reason for missing the 60-day deadline was because of any of 11 acceptable reasons (e.g., your financial institution made an error, a member of your family died). The acceptable reasons are listed in Revenue Procedure 2016-47.
* You complete the rollover as soon as practicable.

***401(k) and similar plans.*** The 2017 elective deferral contribution limit and the additional contribution limit for those age 50 or older by the end of the year for 2017 is unchanged at $18,000 and $6,000, respectively.

***Self-employed retirement plans.*** Contribution, benefit, and other limits for these plans for are increases slightly for 2017. For example, the contribution limit for profit-sharing plans in 2017 is $54,000 (up from $53,000 in 2016).

***Simplified Employee Pension plans (SEPs).*** Contribution limits for these plans for 2017 is $54,000 (up from $53,000 in 2016). The earnings threshold for including an employee in a SEP is unchanged at $600.

***Savings Incentive Match Plans for Employees (SIMPLEs).*** The 2017 contribution limit for SIMPLEs 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 2016).

***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 income limits for contributors are the same as for Roth IRAs.

***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 2017.

***Custodial fees.*** A final rule from the Department of Labor impacting brokers’ duties with respect to retirement plans is scheduled to go into effect on April 10, 2017. This rule could impact how brokerage firms charge for managing retirement accounts and IRAs.

***Chapter 6—Charitable Giving***

***Real estate donated for conservation purposes.*** The IRS has updated its Audit Technique Guide for Conservation Easements (<https://www.irs.gov/businesses/small-businesses-self-employed/conservation-easement-audit-techniques-guide>).

***Syndicated conservation easements.*** The IRS has designated syndicated conservation easement transactions promising charitable deductions in excess of amounts invested as “listed transactions” that require special disclosure by investors on their tax returns. Details about this are in Notice 2017-10.

## 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, is 53.5¢ per mile in 2017 (down from 54¢ per mile in 2016).

The dollar limits on depreciating passenger cars, trucks, and vans placed in service in 2017 historically have been released in mid-February. The first-year limits for new vehicles reflect the $8,000 bonus depreciation.

***Electric drive vehicles.*** The credit for 2-wheel vehicles expired at the end of 2016. Whether it will be extended to 2017 is uncertain. The credit for 4-wheel vehicles continues for 2017 and is unchanged.

If you buy or have purchased an electric drive vehicle, ask your insurance company about a premiums discount.

As of yet, no manufacturers have sold more than 200,000 electric drive vehicles, which would limit the credit. GM totaled more than 100,000 in such sales in 2016, but there is a considerable way to go to 200,000. Nonetheless, if you are thinking about buying such a vehicle, check with the manufacturer about this sales number to be sure about qualifying for the credit.

## Chapter 8—Investing

***Gain on empowerment zone assets.*** The exclusion of gain on the sale of empowerment zone assets that are rolled over within 60 days of the sale expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

## Chapter 9—Travel

***Business travel per diem rates.*** The maximum federal per diem rate for travel starting October 1, 2016, through September 30, 2017, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $142 per day ($91 for lodging and $51 for M&IE). These rates are higher than the prior 12-month period when the rate was $140 per day ($89 for lodging and $51 for M&IE). The per diem rates for travel to certain areas have been increased. These rates can be found at [www.gsa.gov](http://www.gsa.gov) (click on Per Diem Rates).

The high-low substantiation rates for areas within CONUS for the period October 1, 2016, through September 30, 2017, are $282 for travel to high-cost localities and $189 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 2016-58 for details).

***Driving your car for medical or moving purposes.*** The IRS standard mileage rate for 2017 is 17¢ per mile (down from 19¢ per mile in 2016).

## 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, 2016, through September 30, 2017, is the daily rate of $51 ($54, $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, 2016, through September 30, 2017, increased to $68 per day for high-cost areas and $57 per day for other areas (unchanged from the previous 12-months).
* *Meal allowance for transportation industry workers.* The IRS-set rate for CONUS stays at $63 per day for the period from October 1, 2016, through September 30, 2017; the rate for travel outside of CONUS also unchanged at $68 per day.

***Gambling losses.*** The IRS has final regulations on withholding and information returns for winnings from bingo, keno, and slot machine play. It also issued proposed regulations for withholding and information returns with respect to bets on horse racing, dog racing, and jai alai.

## 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 expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Special breaks for certain disaster victims.*** Unfortunately, natural and other disasters continue to occur. There are no special breaks with respect to real estate investments for certain disaster victims in 2016 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 2017 remains to be seen.

## Chapter 13—Insurance and Catastrophes

***Disaster losses.*** Under temporary regulations that became effective on October 13, 2016, you have more time to elect to deduct disaster losses not covered by insurance on the tax return for the year prior to the disaster. The election period is up to six months after the original due date of the return for the year of the disaster. This six-month period applies whether or not you obtain a filing extension for your return.

**Example:** On February 1, 2016, you experience a natural disaster in an area declared eligible for federal disaster assistance through FEMA. The due date for the 2016 return is April 18, 2017 (because April 15 is Saturday and April 17 is holiday in Washington DC). You have an additional six months from April 15 to make the election to deduct the disaster loss on a 2015 return; this extends the election period through October 16, 2017 (October 15 is Sunday)

The period for revoking an election is extended to 90 days after the due date for making the election. Procedures for making and revoking an election are in Revenue Procedure 2016-53.

Find a list of all federal disaster areas for 2016 from FEMA at <https://www.fema.gov/disasters/grid/year/2016>.

A casualty deduction is allowed only for a loss resulting from a sudden, unexpected event. No deduction can be claimed for gradual deterioration. One court decided that the collapse of a wall was due to gradual weakening. The fact that rain was the tipping point that triggered the collapse did not change the court’s conclusion.

***Accelerated death benefits.*** For chronically ill individuals, the daily dollar limit excludable from gross income for 2017 is $360 (up from $340 in 2016); excess amounts are taxable to the extent they exceed actual long-term care costs.

***Special breaks for certain disaster victims.*** While Congress and the IRS have not created special deductions and credits for certain disaster victims, there have been a number of special rules related to certain disasters. These include:

* *Donating unused leave time to an employer’s program*. The donated vacation, sick, or personal days that would ordinarily be taxed as compensation is treated as tax free if the employer donates the cash to a charity benefiting victims of the Louisiana floods in August 2016 or Hurricane Matthew in October 2016.
* *More time to file*. The deadlines for filing tax returns and doing other required actions has been delayed. A list of disasters subject to extensions and the extended due dates can be found at <https://www.irs.gov/uac/tax-relief-in-disaster-situations>.

## Chapter 14—Your Job

***Educator expenses.*** See the *Introduction*.

***Fringe benefits.*** A couple of benefits have been impacted for 2017:

*Transportation fringe benefits.* The monthly exclusion for free parking, transit passes, and van pooling for 2017 is $255, which is the same as in 2017.

*Adoption assistance.* The exclusion amount in 2017 for employer-provided adoption assistance is $13,570 (up $110 from 2016).

***Income earned abroad.*** The maximum foreign earned income exclusion for 2017 has been increased to $102,100 (up from $101,300 in 2016).

## Chapter 15—Your Business

***Equipment purchases.*** Three key changes impact write-offs for equipment purchases in 2017:

* *First-year expensing.* The limit is $510,000 (with the phase-out starting at $2,030,000 million).
* *Bonus depreciation.*Bonus depreciation remains at 50% for 2017; 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 2017 is capped at $2.500 per item or invoice (unless the IRS decides to increase this limit).

***Employment-related tax credits.*** While the work opportunity credit is extended through 2019 and the wage differential payment credit is permanent, the empowerment zone employment credit and Indian employment expired at the end of 2016. Whether they will be extended to 2017 is uncertain.

***Self-employment tax.*** The wage base for the Social Security portion of the self-employment tax in 2017 is $127,200 (up from $118,500 in 2016).

***Standard mileage rate.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2017 it is 53.5¢ per mile (down from 54¢ per mile in 2016).

Those who own their vehicles and use the standard mileage rate for 2017 must reduce the vehicle’s basis by 25¢ per mile; the reduction was 24¢ per mile for 2016.

***Business-related tax credits.*** The energy-efficient home credit and the alternative fuel vehicle refueling property credit expired at the end of 2016. Whether they will be extended to 2017 is uncertain.

## Chapter 16—Miscellaneous Items

***Gifts you make.*** The annual exclusion amount for 2017 is $14,000 per recipient (the same as in 2016). 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). The exclusion will become irrelevant if estate and gift taxes are repealed for 2017.

***Tax audits.*** The reasonable reimbursement rate for attorney’s fees in 2017 when the IRS’s position is not substantially justified and other requirements are met remains at $200 per hour.

***Olympic gold.*** American Olympians and Paralympians are not taxed on their winnings after 2015 (i.e., the 2016 Summer Olympics). The exclusion applies to the cash payments ($25,000 for gold, $15,000 for silver, and $5,000 for bronze) as well as the value of the medals (estimated at $600 for gold and $300 for silver; the bronze have little value). However, athletes with adjusted gross income exceeding $1 million ($500,000 for married persons filing separately) cannot exclude their winnings.

***Alternative minimum tax (AMT).*** The AMT exemption amounts are up slightly for 2017, as shown in the following table:

|  |  |  |
| --- | --- | --- |
| **Filing status** | **2016 exemption** | **2017 exemption** |
| Married filing jointly/surviving spouse | $83,800 | $84,500 |
| Single/head of household | $53,900 | $54,300 |
| Married filing separately | $41,900 | $42,250 |

*Exemption phase-out.* The exemption amounts for 2017 start to phase out when alternative minimum taxable income (AMTI) exceeds $120,700 for singles and heads of households, $160,900 for married filing jointly and surviving spouses, and $80,450 for married filing separately.

*Start of 28% rate.* The 26% AMT rate for 2017 applies to alternative minimum taxable income up to $187,800 ($93,900 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

***ABLE accounts.*** See Chapter 2.