BARRY & MOORE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2016 Year End & 2017 Tax Planning Guide

BARRY & MOORE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Dear clients and friends,

Barry & Moore is pleased to present you with our 2016 year end and 2017 tax planning guide. This guide consists of a variety of tax related information about tax legislation, identity theft and fraud, investing, business taxes, retirement, education, estate planning, energy credits, and more.

There weren't many significant tax law changes enacted that will impact the 2016 filing season and no new significant tax legislation is expected before the end of the year. However, this does not mean that we don't expect things to change in 2017 and beyond. The world is changing rapidly and tax and wealth planning will need to adapt and be ready for what comes next.

In these changing times, proactive tax planning can help you preserve your financial well-being. We hope you find the information contained in this guide helpful. Please visit our website at barryandmoore.com for any legislative updates to the information contained in this guide. We would be happy to discuss with you any of these tax matters and how they may affect your specific situation.

We appreciate the trust you have placed in us. As always, our mission is your complete satisfaction and success. We wish the best for you and yours through the remaining 2016 holiday season and for all of 2017.

Sincerely,

Barry & Moore, P.C.

Barry & Moore, P.C.

2198 East Camelback, Suite 370 • Phoenix, Arizona 85016 • (602) 277-5463 FAX (602) 248-9074

Table of Contents

1 **Information for Everyone**
Tax planning information for all

3 **Fraud, Tax Scams & Data Security**
We all have a role to play in protecting your data

4 **Investing**
Help in making tax-smart investment decisions

5 **Businesses**
Important information for those with business ownership interests

7 **Charitable Giving**
Provide support and save taxes

9 **Retirement**
Tax information to help you create and preserve your wealth

10 **Family & Education**
Ways to minimize your taxes while maximizing your family's benefit

11 **Estate Planning**
Dealing with legislative uncertainty

12 **Energy Efficiency**
When it comes to tax time, it pays to be green

13 **Tax Rates & Brackets**
Schedules and more to answer your basic questions

14 **Annual Limits, Standard Rates & Deductions**
Retirement Contribution Limits, Standard Deduction and other Annual Limits

Information for Everyone

Tax planning information for all

Frequently Asked Questions

Over the past few years we have noted your most common question areas; these areas and their locations in this guide are listed below for your quick reference:

- AZ Tax Credits - Page 7
- Estate Planning - Page 11
- Annual Gift Tax Exclusion - Page 11
- Tax Rates & Brackets - Page 13

US Elections Impact

Any tax impact of the 2016 Presidential Election likely won't be felt until 2017 at the earliest, but changes to individual and corporate tax rates, the estate tax, itemized deductions, personal exemptions, standard deductions, child/elder care deductions and credits and the net investment income tax are expected. Also, changes are expected to occur with regard to the Patient Protection and Affordable Care Act ("PPACA") and the associated taxes enacted under its provisions.

If enacted, the Trump Tax Plan ("the Plan") would compress the individual income tax rates from seven, under the current law, to three (12 percent, 25 percent and 33 percent). Additionally, the standard deduction would increase to $30,000 for Married Filing Jointly (MFJ) filers and $15,000 for Single filers (for reference the standard deductions for 2016 are $12,600 and $6,300 for MFJ and Single respectively). Another potential change impacting individual taxes is a proposed cap on itemized deductions of $200,000 for MFJ taxpayers and $100,000 for Single taxpayers.

The Plan would also eliminate all personal exemptions and the Head-of-Household filing status. It is expected that middle income households that benefit from the Head-of-Household designation will see an overall rise in their taxes if the Plan is enacted this way, though Congressional Republicans have already discussed ways to change this part of the Plan so that does not happen.

The Plan has also proposed new benefits that are targeted at families. Potential new above-the-line deductions for taxpayers facing child care and elder care expenses (above-the-line means these deductions are available to itemizers and non-itemizers alike with maximum income of $500,000 for MFJ and $250,000 for Single filers). The Plan has also proposed tax-preferred savings accounts to encourage families to set aside funds for caregiving expenses.

The top corporate tax rate under the Plan would be lowered from 35 percent to 15 percent. This 15 percent rate would be *"available to all businesses, both big and small, that want to retain the profits within the business."* Its not clear how this would impact pass-through income entities, such as Partnerships, LLC's and S Corporations, but there has been discussion about these entities being allowed to elect to be taxed under this reduced rate. However, owners of entities that elect this treatment would be subject to a second layer of tax on distributions, similar to the current second layer of tax on C Corporations.

Information for Everyone

Tax planning information for all
(Continued)

US Elections Impact (Continued)

The Plan would call for a continuation of a top capital gains tax rate of 20 percent, but it would repeal the 3.8 percent Net Investment Income Tax. Additionally, the Plan would retain the current 20 percent rate on dividend income. Also, carried interest under The Plan would be taxed as ordinary income rather than capital gains.

The Plan, as proposed by President-Elect Trump, has also consistently called for repealing the Estate, Gift and Generation-Skipping Transfer taxes. The Plan would impose a capital gains tax on assets left to heirs above a $10 million threshold, which would effectively exempt small businesses and family farms from being subject to tax. Also, to prevent abuse, contributions of appreciated assets into a private charity (private foundation) established by the decedent or the decedents relatives would be disallowed. Lastly, there would no longer be a step-up in basis for assets that were transferred to heirs and the inheritor would be subject to tax on any gain from the sale of the inherited asset.

President-Elect Trump has proposed to repeal and replace the PPACA (also referred to as Obamacare) and presumably, the taxes enacted under that legislation, including the 0.9 percent tax on wage/earned income and the 40% “Cadillac Tax” on employer sponsored health coverage that exceeds certain thresholds. Subsequent to the completion of the election process, Trump has altered his repeal and replace stance on the PPACA and has indicated that he will be working to keep some of the more favorable aspects of the legislation. These include guaranteed coverage for pre-existing conditions and the ability for young adults to stay on their parents plan until age 26.

Additionally, President-Elect Trump has proposed removal of the individual mandate, allowing insurance to be purchased across state lines, full tax deductibility of health premiums, block-granting Medicaid to the states, remove of barriers to entry for overseas drug providers and provide a renewed emphasis on the use of Health Savings Accounts.

While, it is unlikely that the Trump Tax Plan and his proposals for changes to the PPACA will be enacted exactly as he has proposed, it is expected that with an agreeable Congress on his side for at least the next two years, it is clear that we are headed down a decidedly different path from where President Obama took us over the past eight years.

Important Due Date Changes

Important Due Date Changes on the horizon for the 2017 filing year (2016 tax returns):

- Partnerships - Move forward to March. Due Date - March 15, 2017.
- C Corporations - Move back to April. Due Date - April 17, 2017. Extended deadline moves to October. Due Date - October 16, 2017.
- Trust & Estate (Form 1041) - Extended due date changed to September 30th. Actual 2016 Filings Extended Due Date - October 2, 2017.
- Foreign Bank Account (Form 114) - Moves forward to April from June, can be extended to October and now has same original and extended due dates as Individual returns.

Fraud, Tax Scams & Data Security

We all have a role to play in protecting your data

If it sounds too good to be true, it probably is! In recent years, thousands of people have lost millions of dollars and their personal information to tax scams and fake IRS communications. We want you to be aware of the most common scams affecting you, your business and even tax professionals so we can all work together to protect your financial assets and data!

In 2015 the IRS released their "Dirty Dozen" list of tax scams. While they haven't updated the list for 2016 yet it is important to note that many of these scams are still prevalent today. Some of the more important ones are highlighted below:

Tax Fraud Security and Data Protection

- Phone Scams: Aggressive and threatening phone calls by criminals impersonating IRS agents remains an ongoing threat to taxpayers. The IRS has seen a surge of these phone scams, as scam artists threaten police arrest, deportation, license revocation and other things. The IRS will never call to demand immediate payment using specific payment methods such as prepaid debit cards, ask for credit or debit card numbers over the phone or threaten to bring in law-enforcement to have you arrested or tell you that the police are "on their way".

- Phishing and Malware: Taxpayers need to be on guard against fake emails or websites looking to steal personal information. The IRS will not send you an email about a bill or refund out of the blue. Don't click on one claiming to be from the IRS that takes you by surprise, as this is likely a scam to steal your personal information. During 2016, the IRS identified a 400 percent increase in phishing and malware incidents. Be aware that the IRS does not initiate contact with taxpayers by email, text messages or social media.

- Identity Theft: Taxpayers need to watch out for identity theft especially around tax time. The IRS continues to aggressively pursue the criminals that file fraudulent returns using someone else's Social Security number, but this is still an on ongoing problem and taxpayers need to be extremely careful with their personally identifying information. If a fraudulent return is filed in your name, it will delay any refund you expect to receive as well create additional required filings with the IRS identity theft unit to verify that you are the true and correct taxpayer. Identity theft doesn't just affect you the first year it happens as additional security measures are required in future years to ensure proper secure filing.

You can review additional information released by the IRS related to the "Dirty Dozen" and all of the current most common tax scams at IRS.gov and the specific websites listed below.

- https://www.irs.gov/uac/newsroom/irs-completes-the-dirty-dozen-tax-scams-for-2015
- https://www.irs.gov/uac/tax-scams-consumer-alerts
- https://www.irs.gov/individuals/taxes-security-together
- https://www.irs.gov/uac/irs-security-awareness-tax-tips

Any communication you receive from the IRS or someone purporting to be from the IRS should be communicated to us immediately so we can investigate and determine the best course of action to protect your financial assets and data!

Investing

Help in making tax-smart investment decisions

Attention to Detail

The tax treatment of investments varies dramatically based on several factors, including the type of investment, the nature of income it produces, how long it has been held, and if any special limitations or tax breaks apply. If you don't pay attention to the details, the tax consequences of an investment may be different than you expect. So before you make any investment decisions, consider the potential tax consequences under the different possible scenarios.

Investment Taxes

The top tax rate, for 2016, on income from qualified dividends and long-term capital gains is unchanged. The top rate on income from both sources increases from 15% to 20% for unmarried taxpayers with taxable income over $415,050 and married taxpayers with taxable income over $466,950. For taxpayers with taxable income below these thresholds, the 15% rate for both long-term capital gains and qualified dividends remains in place. Additionally, investment income is potentially subject to the 3.8% Net Investment Income Tax, depending on whether you meet certain income thresholds (see 3.8% Net Investment Income Tax below).

3.8% Net Investment Income Tax

Continuing in 2016, a surtax of 3.8% is imposed on net investment income, which includes all "unearned" income, such as income from interest, dividends, capital gains (including otherwise taxable gain on the sale of a personal residence), annuities, royalties, rents, and passive activity investments. The tax is applied against the lesser of the taxpayer's net investment income or modified AGI in excess of the thresholds. These thresholds are set at $200,000 for singles and $250,000 for joint filers; these thresholds are not indexed for inflation. Income not subject to this tax includes distributions from qualified plans, income derived in the ordinary course of a trade or business that is not treated as a passive activity, and tax exempt income from municipal bonds. It is also important to note that taxpayers subject to an AMT liability would be liable for any 3.8% Net Investment Income Tax in addition to the AMT liability.

2017 Outlook/ Planning

Within the framework of President-Elect Trump's tax and healthcare proposals, it makes sense to hold onto any unrealized capital gains until 2017 or later unless you have losses to absorb them. While the tax rate for capital gains is likely to remain unchanged, the 3.8% NIIT is expected to be repealed as part of legislation to repeal and replace the PPACA (Obamacare). The repeal of this tax would reduce the tax cost related to recognition of these unrealized gains in 2017 and future years.

The 0% Rate

Taxpayers in the 10% or 15% tax brackets qualify for the 0% tax rate on long-term capital gains and qualified dividends. For example, a married filing jointly couple can have up to $75,300 of taxable income ($37,650 for single taxpayers) and still qualify for the 0% rate. Factoring in the standard deduction and personal exemptions allows a married filing jointly couple to have $96,000 of adjusted gross income ($48,000 for single taxpayers) and still qualify for the 0% rate.

Principal Residence

The gain on sale of a principal residence may be subject to capital gains tax if the residence was used as other than a principal residence after 2008, even when the total gain doesn't exceed the normal home sale exclusions.

Businesses

Important information for those with business ownership interests

Losses/ Built-in Gains

Insufficient tax basis limits the amount of losses you are allowed to use to offset other income, which could potentially increase your tax liability. So it may be wise to review your partnership and S-Corporation investments for the need to increase your tax basis prior to year end. You may also want to consider disposing of passive investments to free up current year or prior year suspended losses from those investments. Suspended losses may arise from passive losses, such as those derived from rental real estate or businesses you are not actively involved in, since these types of losses usually can only be deducted against passive income. The ten-year waiting period (recognition period) for an S-Corporation to avoid the built-in gains tax was permanently set at five years starting in 2015.

Employee Health Reimbursement Plans

For non shareholder-employees and shareholder-employees that own less than 2%, reimbursements for accident and health insurance premiums for "more than one employee" are no longer allowed under the PPACA as these reimbursements would constitute a "group plan" which would not meet the "market reform" requirements of PPACA. The violation of these market reform requirements could subject the business to a $100 per day, per employee penalty (potentially, $36,500 per employee).

2017 Outlook/ Planning

Notice 2015-17 provided transition relief for the penalties indicated above so the penalties will not be enforced in 2016 as no new guidance has been issued. Additionally, reimbursement plans for "more than one employee" may come back into play in 2017 as part of President-Elect Trump's plan to repeal and replace Obamacare. While this topic hasn't specifically been addressed as part of his overall healthcare plan, it is likely that Trump will attempt to simplify or even eliminate the requirements to have health insurance, which would have a significant impact on what health insurance is required to offer. While many businesses have started group plans to satisfy the market requirements, we may see a shift back to health insurance reimbursement plans that were in place before the PPACA was enacted in 2012.

Shareholder/ Partner Insurance

The enactment of the 2012 PPACA created confusion as to an S-Corporation's ability to deduct medical insurance premiums paid directly to or reimbursed to more than 2% shareholder-employees that are not using an employer sponsored group plan.

Notice 2015-17 also clarified that S Corporations may continue to report reimbursements of health insurance of 2% shareholders-employees pursuant to Notice 2008-1. Until further guidance is issued and in any event through the end of 2016, the excise tax indicated above will not be asserted for any failure to satisfy the market reforms by a 2% shareholder-employee healthcare arrangement.

No further guidance has been issued in relation to this type of arrangement and as it is likely that healthcare legislation will change for 2017 and beyond and we do not expect any future guidance on this issue as it relates to the PPACA and the market reforms.

Businesses

(Continued)

Shareholder Salaries

Salaries for shareholders active in S-Corporations remain a hot issue for the IRS. Currently, S-Corporations have an advantage over all other types of business entities in that only salaries are subject to Social Security and Medicare taxes (15.3% of the first $118,500 of salaries for 2016, the limit rises to $127,200 for 2017), whereas the distribution of profits to the shareholders are not subject to these taxes. Active shareholders should receive a "reasonable" salary. Whether a shareholder-employee's compensation is "reasonable" depends on the facts and circumstances of each case. Some of the factors the IRS will consider include: (1) whether the salary is unusually higher or lower than those ordinarily paid for similar services; (2) whether the salary is reasonable in relation to the services rendered to the S-Corporation; (3) comparison of the salary with the gross and net income of the S-Corporation; and (4) whether the salary of the shareholder-employee corresponds or bears a close relationship to the stock ownership of such employee. The IRS continues to audit returns based on this issue and reclassify distributions as salaries subject to employment taxes. Please call if you have any questions or concerns related to this matter.

Succession Planning

Family businesses tend to be closely held, with the presiding family having the greatest investment in and control over the enterprise. However, there can be many other interested parties as well, including employees, customers and suppliers, to name just a few. To those parties, it matters who will own and run the business in the future. Lack of information about this can signal uncertainty, with potentially adverse effects on both the near-term and long-term health of the company. On the other hand, a clearly communicated succession plan can help assure stakeholders that the business is here to stay. This planning should be done well in advance of your anticipated transition and should be flexible enough to adjust course as circumstances change.

Sec 179 Limitations

At the end of 2015 the business property expensing election under Code Section 179 limits were permanently adjusted. The section 179 limitation for 2016 and future years is $500,000, which begins to phase out when acquisitions for the year exceed $2,000,000. This expensing election can be made for both new and used property to the extent of net taxable income.

Additionally, the $25,000 Section 179 expensing limit on SUV's that are used more than 50% in your business is still in place for 2016 and future years. SUV's that have a GVWR of 6,000 lbs or more may qualify for this election. If you aren't certain which vehicles qualify, please contact us before you make your purchase. The difference between a vehicle that qualifies for this election and one that doesn't is substantial.

Bonus Depreciation

Bonus depreciation continues in 2016 and 2017 at 50% of the cost of eligible property. The property's original use must begin with the taxpayer (cannot be used) and must have a tax recovery period of 20 years or less. Under current law bonus depreciation is set to phase out to 40% in 2018 and 30% in 2019. There is no current or expected legislation that will extend bonus beyond 2019.

Charitable Giving

Provide support and save taxes

Donation Basics

There are a wide variety of types of donations you may make to charitable organizations to receive a tax break. These types include cash, investment property, personal property, and certain costs related to services you provide. However, your deductions may be limited if they exceed certain AGI limits. Your deductions may also vary based on the type of donation, the type of charity, and any benefit you receive related to the donation. Donations of any size require some sort of receipt or written acknowledgement from the charity, the date and amount of cash donations over $250 must be substantiated in writing and received from the charitable organization by April 15, 2017.

Arizona Tax Credits

Donate to a qualifying organization by December 31 to qualify for an Arizona tax credit. Each $1 donated lowers your Arizona tax by $1 (subject to certain limits) and may give you a federal charitable deduction as well. Below is a list of the organization types and the maximum credit limits for each of the available Arizona tax credits based on filing status:

Organization Type	Single	Married Filing Jointly
Public School Tax Credit	$200	$400
Qualifying Charitable Organization	$400	$800
Qualifying Foster Care Organization	$500	$1,000
Private School Tuition Tax Credit[1]	$545	$1,090
Private School Tuition - Plus Tax Credit[1]	$542	$1,083
Military Family Relief Fund[2]	$200	$400
Maximum Potential AZ Tax Credits[3]	$2,387	$4,773

1. Contributions to a Private School Tuition Credit Organization can be accepted through April 15th of the following year for a credit on the previous year's Arizona tax return. Any related federal charitable deduction will be allowed in the year the donation is paid.
2. Arizona allows only $1,000,000 in contributions each year to qualify for this credit. If the $1M limit has been reached your donation for the tax credit will be returned. This credit is set to expire in 2018.
3. To get the maximum potential benefit in 2016 you must have an Arizona tax liability of at least the amount you are donating, up to the maximum potential benefit detailed in the table above. Unused credit amounts can be carried forward for 5 years.

For a list of qualifying charities, please visit our website for links to the Arizona Department of Revenue.

Charitable Giving

(continued)

Non-Cash

Get all unwanted household goods to a charity before the end of the year. Keep in mind that these non-cash donations must be in good used condition or better to claim a deduction. You are responsible for keeping track of what was given and determining the value. Substantiation requirements vary depending on the value assigned to the property being donated. Please call us for specifics if you are donating property valued at $250 or more. All donations will require the name of the organization, the date and location of donation, a reasonably detailed description of the donated property, the fair market value and the method of valuing the property.

Charitable Expenses & Transportation

If you are using your car for a qualified charitable purpose you can deduct the vehicle expenses as a charitable contribution. This is usually done through the charitable mileage rate, but you can use actual expenses if they provide a greater benefit. Also, unreimbursed expenses incurred as a volunteer for a qualified charitable organization are tax deductible. However, you may not deduct the value of your time or donated professional services.

Property

Consider donating appreciated property to charity. Doing so avoids the capital gains tax you would incur if you sold the property. However, do not donate depreciated property that may qualify for a loss on your personal tax return. Instead, sell the property and give the proceeds to charity. Then you can take the capital loss and the charitable contribution deduction.

2017 Outlook/ Planning

President-Elect Trump's revised proposal released in September of 2016 calls for capping itemized deductions at $200,000 for MFJ filers and $100,000 for single filers. While it is unclear if this hard cap will actually be enacted, any large charitable contributions, planned or considered, should be completed before the end of 2016, if possible. Additionally, if you are in a tax bracket in 2016 that is higher than the proposed 33% tax bracket for 2017, you will receive a greater tax benefit from a charitable contribution in 2016 than waiting until tax rates go down in 2017 and beyond.

While we don't know yet what will be enacted, President-Elect Trump's proposal is not currently in line with Congressional Republicans who want to limit itemized deductions while keeping the mortgage interest and charitable contribution deduction unchanged. So it's certainly possible that waiting until 2017 to make a substantial charitable contribution may end up being no different than if it had been made before the end of 2016, but there is a risk of increased tax cost in waiting.

Retirement

Tax information to help you create and preserve your wealth

Roth IRA Conversion

If you believe a Roth IRA is better than a traditional IRA and intend to remain in the market for the long-term, consider converting some traditional IRA funds into a Roth IRA. Conversions will automatically be included in income in the year of conversion. In deciding whether or not a conversion is an effective tax planning strategy for your specific situation, it is important to consider a number of relevant variables, such as your age, your current and expected future tax brackets, and whether you can afford to pay the tax on the conversion. Generally, Roth conversions are most worthwhile when you are in the lowest or lower tax brackets.

Additionally, taxpayers may convert any portion of their balance in an employer-sponsored 401(k) account into a Roth 401(k) under that plan, provided that the employer sponsored plan has this feature. If you are an upper-income taxpayer with modified AGI of at least $200,000 (Single) or $250,000 (MFJ), converting to a Roth IRA could trigger the 3.8% surtax on unearned income. Withdrawals from an IRA are not subject to the surtax, but they are included in AGI and could push your adjusted gross income above the threshold.

IRA Contributions for High Income Individuals

Now that the AGI limit for Roth conversions has been eliminated, the opportunity exists for additional taxpayers with income too high to make a Roth IRA contribution to make a nondeductible traditional IRA contribution in one year (i.e., 2016), then convert the traditional IRA to a Roth IRA in the next year (i.e., 2017). It is important to note, though, that the IRS does not allow taxpayers who convert to specify which dollars are being converted. The IRS considers a taxpayer's non-Roth IRA money to be a single, comingled sum. So if you have other untaxed money in traditional IRA accounts, please consult a Barry & Moore tax professional before converting to a Roth IRA, as you will likely end up with an unintended tax burden from this type of conversion.

Required Minimum Distributions

Once you reach age 70 ½, you must take annual required minimum distributions from defined contribution plans and IRA accounts. If you fail to comply, you could owe a penalty equal to 50% of the amount you should have withdrawn. Usually, your broker will advise you as to the required minimum distribution amount. If not, please be sure to call us and we will compute the amount for you. Also, call us to discuss when it makes sense to take distributions between ages 59 ½ and 70 ½.

Retirement for Business Owners

If most of your money is tied up in your business, retirement can be a challenge. So if you do not already have a tax-advantaged retirement plan set up, consider setting one up this year. You have many options such as 401(k), 403(b), 457, Traditional IRA, Roth IRA, SIMPLE IRA, SEP IRA and Defined Benefit and Cash Balance plans. The higher your age, the higher your potential contribution, for Defined Benefit or Cash Balance plans and in some cases your contribution can exceed your salary. See page 14 for the maximum contributions limits for each different type of plan.

Catch-Up Contributions

Many retirement accounts allow for extra "catch-up" contributions if you are age 50 or over. There are many aspects to consider when determining how much you should be contributing to your retirement and which type of account is best to use. Please contact us to discuss which option is best for you. See page 14 for contribution limits for persons age 50 or over.

Avoid Penalties

Most withdrawals from retirement plans before age 59½ will incur a 10% penalty. However, there are a few exceptions. Make sure you fully understand the tax consequences of any early withdrawals beforehand. To avoid penalties when you change jobs, make sure you either keep your funds in your old employer's plan, roll them over into your new employer's plan or roll them over into an IRA .

Family & Education

Ways to minimize your taxes while maximizing your family's benefit

Kiddie Tax

A child is subject to the "kiddie tax" if the child does not file a joint return for the tax year and (1) the child hasn't reached age 18 before the close of the tax year or (2) the child's earned income doesn't exceed one-half of his or her support and the child is age 18 or is a full time student age 19-23. If you think this may affect you, be sure to talk with us about how to best transfer your investments to your children without surpassing the $2,100 unearned income limit for 2016 and 2017, which is where the "kiddie tax" kicks in.

Child and Dependent Care Expenses

If you paid someone to care for your child or other qualifying person so you (and your spouse if filing jointly) could work or look for work, you may be able to take the credit for child and dependent care expenses. Qualifying expenses are amounts paid for household services and/or care of the qualifying person, they do not include child support payments, alimony or any payments that will be reimbursed by a state social service agency. The total amount of qualifying expenses you can claim is $3,000 per child up to a maximum of $6,000 for 2 or more children. The tax credit phases out from 35% to 20% from $15,000 of AGI to $43,000 of AGI. Above $43,000 of AGI the credit is 20% of your qualifying expenses up to the $6,000 limit (potential $1,200 tax credit).

2017 Outlook/ Planning

President-Elect Trump has proposed six weeks of paid maternity leave for new mothers who do not have it offered at their current employer. There is no mention of paternity leave in the proposal and it excludes fathers in all respects, including single and gay fathers who have recently adopted as well as same sex women who aren't carrying the child.

He has also proposed a deduction for the average cost of child care or elder care based on the taxpayers state of residence. The deduction for child/elder care will be available to taxpayers that take the standard deduction as well as those who itemize. The plan will provide the same tax deduction for stay at home parents as for working parents, offering them compensation for the job they are already doing. Additionally, he has proposed Dependent Care Savings Accounts so families can set aside extra money for child/elder care. These accounts would be pre-tax or tax deductible when funded and would be allowed to accumulate and grow tax-free.

With all of these proposals aimed at deductions instead of tax credits, it is unknown at this time if the dependent care credit and the earned income credit would be changed or eliminated as part of the proposed legislation. This proposal, in some respects, appears to be a step away from the conservative tradition of limited government involvement in social services. Therefore, it is likely that he will receive some push back from Congressional Republicans who would prefer to not have the government involved in child care or paternity leave decisions or who are not certain that the cost of the proposal can be funded through growth or other comprehensive reform savings.

529 College Savings Plan

The Arizona deduction for contributions made to a qualifying 529 College Savings Plan, which was scheduled to expire at the end of 2012, is now permanent. The deduction is limited to $2,000 for single taxpayers and $4,000 for married taxpayers filing a joint return. The IRS limits distributions to "qualified higher education" expenses in order to avoid a 10% penalty on plan earnings.

Direct Payments

Making payments directly to educational institutions or to any person who provides medical care on behalf of your child or grandchild are gift-tax free and will not count against the annual exclusion or lifetime exemption.

Estate Planning

Dealing with legislative uncertainty

Estate Tax

For 2016, individual estates of more than $5.45 million ($10.9 million for married couples) will be subject to a 40% tax. The executor of a deceased spouse's estate may elect for any of the exclusion amount not used by the estate of the first spouse to die to be used by the estate of the surviving spouse or by the surviving spouse during life to reduce otherwise taxable gifts made by the surviving spouse (aka "portability"). This portability provision was permanently extended with the passage of American Taxpayer Relief Act ("ATRA") and provides protection for taxpayers who failed to establish credit shelter trusts. The election to use the portability provision must be filed on a timely filed estate tax return for the first spouse, even if no taxes are due. For 2014 through 2016, the estate tax exemption was permanently indexed for inflation and it will continue to index for inflation so long as ATRA is in effect.

Gift Tax Exclusion

For gifts made in 2016, the estate tax exclusion amount is unified with the gift tax. In other words, the 2016 exclusion amount of $5.45 million is available to reduce taxable gifts during life and any unused amount is available to reduce the taxable estate upon death.

Annual Gift Tax Exclusion

You can save gift and estate taxes by making gifts each year using the annual gift tax exclusion. A taxpayer may give $14,000 to an unlimited number of individuals in 2016 and 2017. Married couples can therefore transfer a combined total of $28,000 to a single recipient each year. As in past years, paying tuition and medical expenses directly to providers does not count toward the $14,000 annual exclusion. A gift made by check is complete on the date the check is cashed or deposited at the recipient's bank. If you are interested in opening a 529 college-savings plan for the benefit of a child or grandchild, you can make a one-time contribution equal to 5 years' worth of gifts, or $70,000 in 2016 ($140,000 if you are gift splitting). This election would need to be made on a timely filed gift tax return for the year of the transfer. As the owner of the account, you can generally get your money back if you need it, whereas most gifting strategies require the donor to relinquish control of the asset. The amount excluded from your estate will be prorated if you die before the five year period is up.

Other Trusts/ Planning

There are numerous other types of trusts that may prove to be beneficial additions to your estate plan. These include marital, credit shelter, qualified domestic, qualified terminable interest property, irrevocable life insurance, Crummey, qualified personal residence, charitable remainder, grantor-retained annuity trusts, and intentionally defective grantor trusts. All of these trusts have different benefits and risks, so please call us to determine which type of trust may be right for you.

2017 Outlook/ Planning

For 2017 and beyond, we are in very uncertain times as it relates to the estate tax. President-Elect Trump has proposed repealing the estate tax, with the caveat that capital gains held until death and valued over $10 million would be subject to tax. Currently, it doesn't make fiscal sense to make large gifts to exhaust your unused exemption before the end of 2016 and any previously planned gifts should be delayed, if possible, as it is likely that there will be significant changes to the estate tax regime, included possible repeal of the tax altogether.

Additionally, all of the various trusts that exist to help bypass the estate tax may become useless, so we do not recommend establishing any new trusts at this time, until we have a better understanding of any future enacted legislation.

Energy Efficiency

When it comes to tax time, it pays to be green

Alternative Energy

The 30% Federal credit for residential energy efficient property, including solar electric, solar hot water, fuel cell, small wind energy, and geothermal heat pumps, is still in effect through 2016. The credits for fuel cells, small-wind and geothermal heat pumps expire at the end of 2016, while the credits for solar property are in place until 2021, with phase out beginning in 2019. The credit applies to new and existing homes and includes the cost of installation. It is not required that the residence be the individual's principal residence.

Additionally, these credits are allowed to offset the AMT as well as regular income tax. Please note that solar heat for swimming pools, hot tubs, or any other medium which has a function other than energy storage does not qualify for the credit. A credit may also be available through the Arizona Department of Revenue for "Renewable Energy Production" using a solar, wind, or biomass energy resource. For more information, please call us or visit the Arizona Department of Revenue website at:
www.azdor.gov/TaxCredits/RenewableEnergyProductionTaxCredit.aspx.

Plug-In Electric Vehicles

Internal Revenue Code Section 30D provides a credit for Qualified Plug-in Electric Drive Motor Vehicles including passenger vehicles and light trucks. For vehicles acquired after December 31, 2009, the credit is equal to $2,500, for a vehicle which draws propulsion energy from a battery with at least 4 kilowatt hours of capacity, plus an additional $417 for each kilowatt hour of battery capacity in excess of 4 kilowatt hours. The total amount of the credit allowed for a vehicle is limited to $7,500.

The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles manufactured by that manufacturer have been sold for use in the United States (determined on a cumulative basis for sales after December 31, 2009). For more information, please call us or visit the IRS website at:
http://www.irs.gov/Businesses/Qualified-Vehicles-Acquired-after-12-31-2009

Tax Rates & Brackets

Schedules and more to answer your basic questions

2016 Individual Regular Tax Brackets

Married Filing Joint & Surviving Spouses

Taxable Income:	Calculated Tax is:
Not over $18,550	10% of the taxable income
$18,551 - $75,300	$1,855 plus 15% of the excess over $18,550
$75,301 - $151,900	$10,368 plus 25% of the excess over $75,300
$151,901 - $231,450	$29,518 plus 28% of the excess over $151,900
$231,451 - $413,350	$51,792 plus 33% of the excess over $231,450
$413,351 - $466,950	$111,819 plus 35% of the excess over $413,350
Over $466,950	$130,579 plus 39.6% of the excess over $466,950

Head of Household

Taxable Income:	Calculated Tax is:
Not over $13,250	10% of the taxable income
$13,251 - $50,400	$1,325 plus 15% of the excess over $13,350
$50,401 - $130,150	$6,898 plus 25% of the excess over $50,400
$130,151 - $210,800	$26,835 plus 28% of the excess over $130,150
$210,801 - $413,350	$49,417 plus 33% of the excess over $210,800
$413,351 - $441,000	$116,259 plus 35% of the excess over $413,350
Over $441,000	$125,936 plus 39.6% of the excess over $441,000

Single (Unmarried Individuals)

Taxable Income:	Calculated Tax is:
Not over $9,275	10% of the taxable income
$9,276 - $37,650	$928 plus 15% of the excess over $9,275
$37,651 - $91,150	$5,184 plus 25% of the excess over $37,650
$91,151 - $190,150	$18,559 plus 28% of the excess over $91,150
$190,151 - $413,350	$46,279 plus 33% of the excess over $190,150
$413,351 - $415,050	$119,935 plus 35% of the excess over $413,350
Over $415,050	$120,530 plus 39.6% of the excess over $415,050

Married Filing Separately

Taxable Income:	Calculated Tax is:
Not over $9,275	10% of the taxable income
$9,276 - $37,650	$928 plus 15% of the excess over $9,275
$37,651 - $75,950	$5,184 plus 25% of the excess over $37,650
$75,951 - $115,725	$14,759 plus 28% of the excess over $75,950
$115,726 - $206,675	$25,896 plus 33% of the excess over $115,725
$206,676 - $233,475	$55,909 plus 35% of the excess over $206,675
Over $233,475	$65,289 plus 39.6% of the excess over $233,475

Wealth Transfer Taxes

Year	Gift & Estate Tax Exemption
2016	$5,450,000
2017	$5,490,000 *

Expected Gift and Estate tax rate through 2016: 40%

2016 Individual AMT Brackets

Tax Rate	Tax Brackets
26%	$0 - $186,300
28%	Over $186,300

The AMT tax bracket for Married Filing Separately is 1/2 of the amounts for Single, Married Filing Jointly, and Head of Household filers.

2016 Corporate Tax Brackets

Tax Rate	Tax Bracket
15%	$0 - $50,000
25%	$50,001 - $75,000
34%	$75,001 - $100,000
39%	$100,001 - $335,000
34%	$335,001 - $10,000,000
35%	$10,000,001 - $15,000,000
38%	$15,000,001 - $18,333,333
35%	Over $18,333,333

* If the estate tax is repealed in 2017, then the exemption amount listed for 2017 will not be applicable.

Please note that the tax rates outlined above and the annual limits on the next page are the currently scheduled rates and limits and are subject to change.

Annual Limits, Standard Rates & Deductions

	2016	2017
Personal Exemption Per Person	$4,050	$4,050
Standard Deduction:		
Single	$6,300	$6,350
Married Filing Separately	$6,300	$6,350
Head of Household	$9,300	$9,350
Married Filing Jointly	$12,600	$12,700
Maximum Retirement Plan Contributions:		
Traditional or Roth IRA	$5,500	$5,500
Traditional or Roth IRA, if 50 or older	$6,500	$6,500
SIMPLE IRA	$12,500	$12,500
SIMPLE IRA if 50 or older	$15,500	$15,500
401(k), 403(b) or 457	$18,000	$18,000
401(k), 403(b) or 457 if 50 or older	$24,000	$24,000
Defined Contribution Plan or SEP IRA	$53,000	$54,000
Defined Benefit Plan	$210,000	$215,000
Standard Mileage Rates:		
Business	57.5 cents	Not Yet
Depreciation	22.0 cents	Released
Medical/Moving	23.0 cents	by the
Charitable	14.0 cents	IRS
Foreign Earned Income Exclusion	$101,300	$102,100

Social Security tax rate is 6.2% (12.4% self employed rate) on wages up to $118,500 for 2016 and $127,200 for 2017.

Medicare tax rate is 1.45% (2.9% self employed rate) with no wage limit for 2016 or 2017.

Net Investment Income Tax rate is 3.8% on net investment income of higher income individuals for 2016 (see page 4 for additional information).

Medicare Surtax rate is 0.9% on earned income of higher income individuals for 2016

BARRY & MOORE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

www.barryandmoore.com

602.277.5463