

High-Income Taxpayers



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High-Income Taxpayers

In addition to being subject to higher federal tax rates, taxpayers whose income exceeds certain levels have tax deductions and credits that are reduced or eliminated.

The provisions listed may have additional qualifications and restrictions. Other provisions of the tax code, such as fringe benefit limitations and taxation on the sale of a principal residence, may further restrict a taxpayer's ability to take deductions or cause the taxpayer to pay additional tax. Ask your tax professional for more details.

Capital Gain Tax Rates

Long-Term Capital Gain Maximum Tax Rates

For taxpayers with ordinary tax rate of:		
	2008 to 2012	2013 and After
Top rate (39.6% after 2012).....	15%	20%
25% to rate below top rate.....	15%	15%
10% or 15%	0%	0%

Qualified Dividend Income Tax Rates

For taxpayers with ordinary tax rate of:		
	2008 to 2012	2013 and After
Top rate (39.6% after 2012).....	15%	20%
25% to rate below top rate.....	15%	15%
10% or 15%	0%	0%

2016 Itemized Deduction Phaseout

Itemized deductions begin to phase out when modified AGI reaches:	
MFJ, QW.....	\$311,300
HOH	\$285,350
Single.....	\$259,400
MFS	\$155,650

High Income taxpayers have significant obstacles to overcome during tax season. Knowing the rules of sheltering income for later on is an important task.

2016 Personal Exemptions

The personal exemption per person is \$4,050

Personal exemptions phase out with the following AGI amounts:

	AGI Beginning of Phaseout	AGI Completed Phaseout
MFJ and QW.....	\$311,300	\$433,800
HOH	\$285,350	\$407,850
Single.....	\$259,400	\$381,900
MFS	\$155,650	\$216,900

Individual Retirement Arrangements (IRAs)

IRA Individual Contribution Limits

	2016	2015
Under age 50	\$5,500	\$5,500
Age 50 or older	\$6,500	\$6,500

Traditional IRA Phaseout Based on Modified AGI (MAGI)

If an individual is an active participant in an employer-sponsored pension plan, the deduction for a traditional IRA contribution is phased out when MAGI is between the following.

Tax Year	MFJ	Single, HOH	MFS
2016	\$98,000 to \$118,000	\$61,000 to \$71,000	\$0 to \$10,000
2015	\$98,000 to \$118,000	\$61,000 to \$71,000	\$0 to \$10,000

If the individual is not an active participant, but the spouse is, the non-active participant's deduction is phased out when modified AGI is between the following.

Tax Year	MFJ	MFS
2016	\$184,000 to \$194,000	\$0 to \$10,000
2015	\$183,000 to \$193,000	\$0 to \$10,000



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Roth IRA Phaseouts

	2016	2015
MFJ or QW	\$184,000 to \$194,000.....	\$183,000 to \$193,000
Single, HOH, or MFS*	\$117,000 to \$132,000.....	\$116,000 to \$131,000
MFS.....	\$0 to \$10,000.....	\$0 to \$10,000

* MFS and did not live with spouse during the year.

Retirement Savings Contribution Credit (Saver's Credit)

2016 Retirement Savings Contribution Credit Percentage

Rate	MFJ	HOH	Single, QW, MFS
50%	\$0 – \$37,000	\$0 – \$27,750	\$0 – \$18,500
20%	\$37,001 – \$40,000	\$27,751 – \$30,000	\$18,501 – \$20,000
10%	\$40,001 – \$61,500	\$30,001 – \$46,125	\$20,001 – \$30,750
0%	Over \$61,500	Over \$46,125	Over \$30,750

* Up to a maximum credit of \$1,000.

Child Tax Credit

AGI phaseout. The credit (up to \$1,000 per qualifying child) is reduced by \$50 for each \$1,000 of modified AGI above:

- \$110,000 Married Filing Jointly.
- \$75,000 Single, Head of Household, or Qualifying Widow(er).
- \$55,000 Married Filing Separately.

Adoption Expenses

2016 maximum credit	\$13,460
2016 maximum exclusion.....	\$13,460
AGI phaseout	\$201,920 – \$241,920
Unused credit carryforward	5 years

Medicare Provisions of the Affordable Care Act

Increased Medicare Tax on Earned Income

The employee portion of the hospital insurance (Medicare) tax is increased by an additional tax of 0.9% on wages received in excess of the threshold amount. However, unlike the general 1.45% hospital insurance (Medicare)

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tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return.

Medicare Tax on Unearned Income

Individuals. The tax is 3.8% of the lesser of net investment income or the excess of modified adjusted gross income over the threshold amount.

Threshold Amount

Joint return or surviving spouse.....	\$250,000
Married individual filing separately.....	\$125,000
All other tax filers	\$200,000

Education Benefits

2016 Education Benefits Comparison Chart

	Benefit	Annual Limit	Modified AGI Phaseout
<i>American Opportunity/Hope Credit</i>	40% of the credit may be refundable (limited to \$1,000).	\$2,500 credit per student.	\$80,000 – \$90,000 \$160,000 – \$180,000 (MFJ)
<i>Lifetime Learning Credit</i>	Tax credit (non-refundable).	\$2,000 credit per tax return.	\$55,000 – \$65,000 \$111,000 – \$131,000 (MFJ)
<i>Tuition and Fees Deduction</i>	Above-the-line tax deduction.	\$4,000 deduction.	\$65,000 – \$80,000 \$130,000 – \$160,000 (MFJ)
<i>Coverdell Education Savings Account (ESA)</i>	Tax-free earnings.	\$2,000 contribution per beneficiary.	\$95,000 – \$110,000 \$190,000 – \$220,000 (MFJ)
<i>U.S. Savings Bond Interest Exclusion</i>	Tax-free interest.	Amount of qualified education expenses.	\$77,500 – \$92,550 \$116,300 – \$146,300 (MFJ)
<i>Student Loan Interest Deduction</i>	Above-the-line tax deduction.	\$2,500 deduction.	\$65,000 – \$80,000 \$130,000 – \$160,000 (MFJ)

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.