HAAS Fydroski Financial Services, Inc.

IPE Insights

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A Taxing Situation

Jim'$ Journal

*Does anyone really like to pay taxes? I think the answer from almost everyone would be a resounding **"NO"**. The reality of it, however, is that a stream of revenue is needed to run the centralized services of society. It would be very impracticable for every locality to create its own military, print its own money, build its own highway systems etc. A source of funding is needed on a national, state and local level to maintain the necessary infrastructure of an orderly society. Consequently, whether we like it or not, taxation in one form or another, will likely be a part of our lives forever. What we really should hope and strive for then is a taxation system that is fair and equitable to all.*

In his presidential bid, candidate Donald Trump made the overhaul of income taxes a major part of his campaign platform. Now, as President Trump, we are likely to see a very strong attempt to change many of the provisions of the tax code. Will the changes be good or bad? We will not know until they are enacted; however, we should expect to see significant tax changes in the not too distant future. 2017 still starts with the old set of tax rules. But, before the year is over we could reasonably expect to see a number of changes. Many of the updates to the current tax code in 2017 reflect the modest inflationary environment we saw in 2016. There are a few new rules as well but not many. In this newsletter, I will summarize the 2017 changes that would most likely affect retirees and pre-retirees. And there is probably no place better to start than with the updates on Social Security.

Social Security: The Social Security wage base increases in 2017 to $127,200, up $8,700 from 2016's cap. So, if you earn less than $127,200, every paycheck you receive in 2017 will have a deduction for FICA (Federal Insurance Contribution Act). FICA is the United States federal payroll (or employment) tax imposed on both employees and employers to fund Social Security and Medicare. The Social Security tax rate on employers and employees remains at 6.2% for both. The employer's share of Medicare tax stays at 1.45% for all wages. The employees' share is 1.45% as well, but they also pay the 0.9% Medicare surtax on wages that exceed $200,000 for singles and $250,000 for married couples. This extra levy is not applicable to employers. The self-employed are also subject to the surtax.

Social Security recipients will see a tiny 0.3% hike in their benefits in 2017. The earnings test limits are heading up, too. People who turn 66 in 2017 do not lose any benefits if they earn $44,880 or less before they reach that age. Individuals who are 62 through 65 by the end of 2017 can make up to $16,920 before they lose any benefits. There is no earnings cap once a beneficiary turns 66. The amount needed to qualify for Social Security crediting climbs to $1,300 per quarter. So earning $5,200 anytime during 2017 will net the full four quarters of credit for the year. Remember that Social Security retirement payouts are based upon your best 35 years of working. If some of your 35 years do not qualify for coverage, a zero will be used in the calculation.

Medicare: For most Medicare recipients, the 2017 Medicare Part B premium will average $109 per month. However, the basic premium increases to $134 per month for some people, The group that pays more includes individuals who first enroll in Part B for 2017 and individuals who do not have premiums deducted from monthly Social Security benefits. Upper-income seniors also pay more for Parts B and D coverage in 2017 if their Modified Adjusted Gross Incomes (MAGI) for 2015 exceeded $170,000 for joint filers or $85,000 for singles. For this calculation, Modified Adjusted Gross Income is AGI plus any tax-exempt interest. For Part B, upper-income seniors pay the higher $134 basic monthly premium plus a surcharge. They also owe a surcharge on Part D premiums for prescription drug coverage.

Retirement Savings Plans: Most dollar ceilings on retirement plans do not change for 2017: The 401(k) contribution limit remains $18,000, but individuals born before 1968 can put in $6,000 more. These pay-in maximums apply to 403(b) and 457 plans, as well. The cap on SIMPLEs stays at $12,500...$15,500 for individuals age 50 and older. However, the pay-in limit for defined contribution plans goes up to $54,000. And retirement plan contributions can be based on up to $270,000 of salary.

The 2017 pay-in limits for IRAs and Roth IRAs also stay steady at $5,500, plus $1,000 as an additional catch-up contribution for taxpayers age 50 and up. Deduction phase outs for regular IRAs start at higher levels in 2017, from $99,000 to $119,000 of AGI for couples and from $62,000 to $72,000 for singles. If only one spouse is covered by a plan, the phase out zone for deducting a contribution for the uncovered spouse rises a bit. It will start at $186,000 of AGI and end at $196,000. The income ceilings on Roth IRA pay-ins ticks upward. They phase out at AGIs of $186,000 to $196,000 for couples and $118,000 to $133,000 for singles.

Personal Taxes: The income tax brackets for 2017 are slightly larger than for 2016 due to mild inflation during the 12-month period from September 2015 through August 2016. The September to August period is the time frame used to figure adjustments every year. The actual tax rates did not change in 2017 (although they could if tax reform is implemented). The following are the tax tables for 2017:

Marrieds: If taxable income is	**The tax is**
Not more than $18,650	10% of taxable income
Over $18,650 but not more than $75,900	$1,865.00 + 15% of excess over $18,650
Over $75,900 but not more than $153,100	$10,452.50 + 25% of excess over $75,900
Over $153,100 but not more than $233,350	$29,752.50 + 28% of excess over $153,100
Over $233,350 but not more than $416,700	$52,222.50 + 33% of excess over $233,350
Over $416,700 but not more than $470,700	$112,728.00 + 35% of excess over $416,700
Over $470,700	$131,628.00 + 39.6% of excess over $470,700

Singles: If taxable income is	**The tax is**
Not more than $9,325	10% of taxable income
Over $9,325 but not more than $37,950	$932.50 + 15% of excess over $9,325
Over $37,950 but not more than $91,900	$5,226.25 + 25% of excess over $37,950
Over $91,900 but not more than $191,650	$18,713.75 + 28% of excess over $91,900
Over $191,650 but not more than $416,700	$46,643.75 + 33% of excess over $191,650
Over $416,700 but not more than $418,400	$120,910.25 + 35% of excess over $416,700
Over $418,400	$121,505.25 + 39.6% of excess over $418,400

Household Heads: If taxable income is	The tax is
Not more than $ 13,350	10% of taxable income
Over $13,350 but not more than $50,800	$1,335.00 +15% of excess over $13,350
Over $50,800 but not more than $131,200	$6,952.50 + 25% of excess over $50,800
Over $131,200 but not more than $212,500	$27,052.50 + 28% of excess over $131,200
Over $212,500 but not more than $416,700	$49,816.50 + 33% of excess over $212,500
Over $416,700 but not more than $444,550	$117,202.50 + 35% of excess over $416,700
Over $444,550	$126,950.00 + 39.6% of excess over $444,550

The 2017 standard deductions go up a bit. Married couples get $12,700, plus $1,250 for each spouse age 65 or older. Singles can claim $6,350... $7,900 if 65 or up. Household heads get $9,350, plus $1,550 once they reach age 65. Blind people receive $1,250 more ($1,550 if unmarried and not a surviving spouse).

High-income tax payers lose itemized deductions starting at a higher level in 2017. Their write-offs are slashed by 3% of the excess of AGI over $261,500 for singles, $287,650 for household heads and $313,800 for marrieds. But the total reduction can't exceed 80% of itemizations. Medicals, investment interest, casualty losses and gambling losses (to the extent of winnings) are exempted from this cutback.

Personal exemptions stay at $4.050 for filers and their dependents in 2017. However, this tax break is phased out for upper-incomers. It is trimmed by 2% for each $2,500 of AGI over the same thresholds as for the itemized deduction phase out.

The 20% top rate on dividends and long-term gains starts at a higher amount for 2017: Singles with taxable income above $418,400, household heads over $444,550 and joint filers above $470,700. The 3.8% Medicare surtax boosts the rate to 23.8%. The regular 15% maximum rate applies for filers with incomes below these amounts, except that filers in the 10% or 15% income tax bracket still get the special 0% rate.

Expired Tax Breaks: There were a number of individual tax breaks that expired on January 1, 2017. Most relevant to pre-retirees and retirees were the credits for installing energy-efficient windows and exterior doors in one's home. Also, there is no longer a write-off for private mortgage insurance. The 30% credit for geothermal heat pumps, wind turbines and fuel cell property is gone. Credits for biodiesel and other alternative fuels as well as two-wheeled electric vehicles expired. There is no guarantee that lawmakers will extend these provisions in 2017.

Estate & Gift Taxes: Unless the value of your estate at death exceeds $5,490,000 in 2017, you will not be subject to Federal Estate Tax. The gift tax exclusion stays the same at $14,000 per donee. Clients are often confused and think that they should be giving away $14,000 to family members and others. That is not true. Unless your estate exceeds the $5,490,000 threshold, there would be no estate tax advantage to give away $14,000 to anyone.

In summary, as we start the year 2017, there are relatively few new tax provisions in the tax code that affect retirees and pre-retirees. Most of the changes reflect an inflation adjustment. It is very possible that there could be significant changes to the tax code before year end. And if there are changes, we do not know whether they will be retroactive to January 1, 2017 or not. If there are changes that significantly affect retirees and pre-retirees, I will let you know in this newsletter. I have included some famous quotes on taxation at the end of this newsletter. Some are funny and others make you think about the real purpose of taxes. Enjoy this early period of warm weather in Michigan. We were supposed to have six more weeks of cold weather. Could the groundhog really be this wrong? Take good care!!!

KEEP
CALM
AND
SAVE
MONEY

Some Famous Quotes on Taxation

1. "The taxpayer: that's someone who works for the federal government, but doesn't have to take a civil service examination."–***Ronald Reagan***

2. "We have what it takes to take what you have."–***Suggested IRS Motto***

3. "The income tax created more criminals than any other single act of government."–***Barry Goldwater***

4. "You must pay taxes. But there's no law that says you gotta leave a tip."–***Morgan Stanley advertisement***

5. "If you get up early, work late, and pay your taxes, you will get ahead–if you strike oil."–***J. Paul Getty***

6. "The tax code is a monstrosity and there's only one thing to do with it. Scrap it, kill it, drive a stake through its heart, bury it and hope it never rises again to terrorize the American people."–***Steve Forbes***

7. "The difference between death and taxes is death doesn't get worse every time Congress meets."–***Will Rogers***

8. "It is a paradoxical truth that tax rates are too high today and tax revenues are too low, and the soundest way to raise the revenues in the long run is to cut the tax rates."–***John F. Kennedy***

9. "Make sure you pay your taxes; otherwise you can get in a lot of trouble."–***Richard M. Nixon***

10. "You don't *pay* taxes–they *take* taxes."–***Chris Rock***

11. "For a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."–***Winston Churchill***

12. "Income tax returns are the most imaginative fiction being written today."–***Herman Wouk***

13. "I am proud to be paying taxes in the United States. The only thing is I could be just as proud for half of the money."–***Arthur Godfrey***

14. "A liberal is someone who feels a great debt to his fellow man, which debt he proposes to pay off with your money."–***G. Gordon Liddy***

15. "Collecting more taxes than is absolutely necessary is legalized robbery."–***Calvin Coolidge***

16. "The hardest thing in the world to understand is the income tax."–***Albert Einstein***

17. "In 1790, the nation which had fought a revolution against taxation *without* representation discovered that some of its citizens weren't much happier about taxation *with* representation."–***Lyndon B. Johnson***

18. "All taxes discourage something. Why not discourage bad things like pollution rather than good things like working or investment?"–***Lawrence Summers***

19. "I'd like somebody to get rid of the death tax. That's what I want. I don't want to get taxed just because I died. I just don't think it's right. If I give something to my kid, I already paid the tax. Why should I have to pay it again because I died?"–***Whoopi Goldberg***

20. "The IRS spends God knows how much of your tax money on these toll-free information hot lines staffed by IRS employees, whose idea of a dynamite tax tip is that you should print neatly. If you ask them a real tax question, such as how you can cheat, they're useless."–***Dave Barry***

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