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Dear Client,

Federal tax law for 2016 remained very similar to 2015 as the 2012 American Taxpayer Relief Act enacted a sweeping tax package that included, among many other items, a permanent extension of the Bush-era tax cuts for most taxpayers, revised tax rates on ordinary and capital gain income for high-income individuals, modification of the estate tax, permanent relief from the alternative minimum tax (AMT) for individual taxpayers, limits on the deductions and exemptions of high-income individuals, and a host of retroactively resuscitated and extended tax breaks for individual and businesses.

Here's a look at the key elements of the package:

- ***Tax rates.*** For tax years beginning after 2012, the 10%, 15%, 25%, 28%, 33% and 35% tax brackets from the Bush tax cuts will remain in place and are made permanent. Along with a 39.6% rate inflation-adjusted for tax years after 2013. 2016 thresholds for 39.6% rate: $415,050 (single), $441,000 (head of household), $466,950 (joint filers and qualifying widow(er)s), and $233,475 (married filing separately).
- ***Estate tax.*** The new law prevents steep increases in estate, gift and generation-skipping transfer (GST) tax that were slated to occur for individuals dying and gifts made after 2012 by permanently keeping the exemption level at $5,000,000 (as indexed for inflation, which is $5,450,000 for 2016). However, the new law also permanently increases the top estate, gift, and GST rate for taxable estates. It also continues the portability feature that allows the estate of the first spouse to die to transfer his or her unused exclusion to the surviving spouse. All changes are effective for individuals dying and gifts made after 2012. Annual gift exclusion for 2016 & 2017 continues at $14,000 per person.
- ***Capital gains and qualified dividends rates.*** The new law retains the 0% tax rate on long-term capital gains and qualified dividends, modifies the 15% rate, and establishes a new 20% rate. Beginning in 2013, the rate is 0% if income falls below the 25% tax bracket; 15% if income falls at or above the 25% tax bracket but below the new 39.6% rate; and 20% if income falls in the 39.6% tax bracket. It should be noted that the 20% top rate does not include the new 3.8% surtax on investment-type income and gains for tax years beginning after 2012, which applies on investment income above $200,000 (single) and $250,000 (joint filers) in adjusted gross income. So actually, the top rate for capital gains and dividends beginning in 2013 will be 23.8% if income falls in the 39.6% tax bracket. For lower income levels, the tax will be 0%, 15%, or 18.8%.
- ***Personal exemption phase out.*** Personal exemptions are phased out (i.e., reduced) for adjusted gross income over $259,400 (single), $285,350 (head of household) and $311,300 (joint filers). Taxpayers claim exemptions for themselves, their spouses and their dependents, worth $4,050 each in 2016.
- ***Itemized deduction limitation.*** Itemized deductions are also limited for adjusted gross income over $259,400 (single), $285,350(head of household) and $311,300(joint filers), not to exceed a 20% phase-out.
- ***AMT relief.*** The new law provides permanent alternative minimum tax (AMT) relief. Prior to the Act, the individual AMT exemption amounts for 2012 were to have been $33,750 for unmarried taxpayers, $45,000 for joint filers, and $22,500 for married persons filing separately. Retroactively effective for tax years beginning after 2011, the new law permanently increases these exemption amounts to $50,600 for unmarried taxpayers, $78,750 for joint filers, and $39,375 for married persons filing separately. In addition, for tax years beginning after 2012, it indexes these exemption amounts for inflation. For 2016, the AMT exemption amounts are $53,900 for unmarried taxpayers, $83,800 for joint filers, and $41,900 for married persons filing separately.
- ***Tax break extenders.*** Many of the "traditional" tax extenders have been permanently extended. Among many others, the extended provisions include the election to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes and the $250 above-the-line deduction for certain expenses of school teachers.
- ***Pension provision.*** For transfers after Dec. 31, 2012, in tax years ending after that date, a plan provision in an applicable retirement plan which includes a qualified Roth contribution program can allow participants to elect to transfer amounts to designated Roth accounts with the transfer being treated as a taxable qualified rollover contribution.
- ***Net Investment Income tax:*** There is a 3.8% surtax on all net investment income, beginning in 2013, for single taxpayers with income over $200K, MFJ with income over $250k and for MFS with income over $125k
- ***Health Care Mandate:*** Beginning in 2014:
  "Obamacare" institutes the individual mandate
  Tax credit assistance for lower income households
- ***Employer Healthcare Mandate is delayed:***
  - 2015 for employers with 100 or more employees; 2016 for employers with fewer than 100 employees
  - Employers with fewer than 50 employees are exempt from employer mandate

2016 Standard Mileage Rates:
Business use of Auto .54 per mile / Charitable = .14 per mile / Medical & Moving = .19 per mile

Federal Tax Rates for the Year 2016

		Single		Married	
Ordinary	Long Term Gains	Taxable Income		Taxable Income	
Tax Rate	Tax Rate	*Over*	*To*	*Over*	*To*
10%	0%	0	9,275	0	18,550
15%	0%	9,275	37,650	18,550	75,300
25%	15%	37,650	91,150	75,300	151,900
28%	15%	91,150	190,150	151,900	231,450
33%	15%	190,150	413,350	231,450	413,350
35%	15%	413,350	415,050	413,350	466,950
39.6%	20%	415,050	--	466,950	--

NORTH CAROLINA TAX CHANGES

North Carolina had sweeping tax law reform enacted during 2013, with effective changes to begin in 2014. An outline of the key changes is as follows:

- No longer variable tax rates from 6% to 7.75%, but replaced with a flat tax of 5.75% for 2016 (5.499% for 2017)
- Medical deductions, per federal return, ***is now allowed effective 2015*.**
- No North Carolina estate tax for 2013 and forward.
- No personal exemptions allowed beginning in 2014 and forward.
- Allowable mortgage interest including real estate taxes will be capped at $20,000
- "Bailey" (qualified government employees), "Patton"(qualified military) and railroad retirement benefits along with social security remain deductable.
- Other retirement benefit deductions end after 2013.
- After 2013, there is no longer a deduction of up to $35,000 for severance or up to $50,000 for business income profits.
- NC529 Plan is not deductable after 2013.
- During 2013, the Warren vs. Supreme Court resulted in same sex married couples are now treated the same as traditional married couples for IRS tax return purposes, but individual states regulate their own rules. As of 2014 North Carolina does recognize same sex married couples for NC tax returns.

Because of these changes, North Carolina has created new NC-4/ NC-4EZ forms for NC tax withholding and all employees must fill out these newly updated forms. *In most situations the NC-4EZ form will suffice.*

I hope this information is helpful. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call.

Very truly yours,

FRANKLIN & FRANKLIN, PA