

Essentials for Taxpayers—
For 2016 Federal Returns Due in April 2017



Theta Tau Educational Foundation

2016 Tax Preparation Checklist

- Copy of 2015 tax return
- Social Security number(s)—taxpayers and dependents
- W-2 forms from all employers
- 1099-INT forms showing interest payments received
- 1099-G form showing any refund, credit, or offset of state/local taxes
- Receipts pertaining to business (if small business owner)
- 1099-DIV and 1099-R forms
- Other income receipts: rental real estate, royalties, partnerships, S corporations, trusts
- Unemployment compensation documentation
- Social Security benefits documentation
- Other pertinent documents

Documentation for Itemized Deductions

- Medical/dental expenses
- Receipts for taxes paid: state, local, real estate, personal property
- Form 1098 mortgage interest and points
- Receipts for charitable contributions and gifts
- Casualty and theft losses
- Job expenses

Helpful Online Information

The IRS website, IRS.gov, features a series of publications which provide basic information on every topic listed in this checklist, including: **Your Federal Income Tax** (Publication 17) and **Charitable Contributions** (Publication 526).

Go to www.IRS.gov/publications for a complete list of available topics.

Personal Exemption

The personal exemption amount that taxpayers may deduct for themselves and each of their dependents is set at \$4,050 for 2016. For example, a husband and wife with two dependent children filing a joint tax return would claim four personal exemptions for a total of \$16,200.

Standard Deduction

Amount. The standard deduction is a flat amount that a taxpayer may deduct in lieu of itemizing deductions. In 2016 the standard deduction is:

TAXPAYER STATUS	STANDARD DEDUCTION
Single	\$6,300
Married filing jointly	\$12,600
Head of household	\$9,300
Married filing separately	\$6,300

Age 65 or Blind. Taxpayers who are 65 or over, or who are blind, may take an additional standard deduction of \$1,250 if married or \$1,550 if single, provided they do not itemize.

Dependents. Taxpayers (usually children) who are claimed as dependents on another's (usually parents') tax return may only take a standard deduction of the greater of (1) \$1,050 or (2) \$350 plus earned income (up to the regular standard deduction amount).

Itemized Deductions

Interest Expense. Most personal interest paid is not deductible, with certain important exceptions shown below:

DEDUCTIBLE

1. Mortgage interest on up to two residences
2. Points on home mortgages
3. Loan interest on home equity debt (subject to limitations)
4. Business interest
5. Investment interest limited to net investment income
6. Qualified education loan interest up to \$2,500
(deducted above-the-line; subject to phaseout for higher income earners)

NOT DEDUCTIBLE

1. Auto loan interest
2. Credit card interest
3. Most other consumer loan interest
4. Prepaid interest other than points on home mortgages

Medical and Dental Expenses. Expenses paid for nearly all medical, dental and vision care during the year, and not reimbursed by insurance or other means, are deductible by itemizers to the extent that the total of such expenses exceeds 10% of AGI or 7.5% of AGI for those aged 65 and over in 2013 through 2016.

Losses. Individuals can deduct three basic types of losses: 1) business losses incurred in the taxpayer's unincorporated business, 2) investment losses if the investment was originally motivated by profit, and 3) casualty and theft losses, but each separate loss is reduced by \$100, and the total of such losses is only deductible to the extent it exceeds 10% of AGI.

Capital Gains, Dividends, Investment Income

Long-Term Capital Gains. The maximum tax rate on net long-term capital gains for most individual taxpayers is 15% (20% for taxpayers in the 39.6% bracket, 0% for taxpayers in the 15% or 10% bracket).

Holding Period. The long-term rate generally applies to gains on the sale of capital assets held for more than one year.

Short-Term Capital Gains. Net short-term capital gains (on sales of capital assets held for one year or less) are taxed at ordinary income rates.

Collectibles. Long-term capital gain from the sale of collectibles (antiques, artwork, etc.) is taxed at a top rate of 28%.

Capital Losses. After capital gains and losses are netted against one another, any remaining net capital loss may be used to offset ordinary income up to \$3,000 per year. Any excess net capital loss may be carried over and used in future years.

Sale of a Principal Residence. A seller of any age who has used real property as a principal residence for at least two of the last five years can exclude from gross income up to \$250,000 (\$500,000 if married filing jointly) of gain realized on a sale.

Corporate Dividends. The top federal income tax rate on most corporate dividends received by individuals is 15% (20% for taxpayers in the 39.6% bracket, 0% for taxpayers in the 15% or 10% tax bracket).

Medicare Surtax. Taxpayers over the income threshold of \$200,000 (\$250,000 for married couples filing jointly) are subject to an additional 0.9% tax on wages and an additional 3.8% tax on net investment income.

Limitations for High-Income Taxpayers

Taxpayers with a modified adjusted gross income over a certain amount (\$259,400 for single individuals and \$311,300 for joint filers) will also be required to reduce personal exemptions and itemized deductions.

Alternative Minimum Tax

Taxpayers are subject to an “alternative minimum tax” (AMT) instead of the regular income tax when they have substantial “preference income.” This is income that is treated favorably under the regular income tax. Basically, the taxpayer must pay whichever tax is higher—the regular tax or the AMT.

FILING STATUS	2016 EXEMPTION
Single or head of household	\$53,900
Married filing jointly	\$83,800
Married filing separately	\$41,900

The exemption amounts are phased out for higher-income taxpayers.

AMT INCOME IN EXCESS OF EXEMPTION	AMT RATE
First \$186,300 *	26%
Above \$186,300 *	28%

** \$93,150 for married persons filing separately.*



Tax-Wise Tips for Making Charitable Gifts

Gifts by Check. If you write a check to charity, the gift is complete when the check is postmarked. So, as long as it is postmarked by December 31, you can deduct it for the year 2016, even if the charity does not cash it until 2017.

Pledges and IOUs. If you have made a pledge to charity or given a charity your personal note, you cannot deduct this as a charitable contribution in 2016 unless you actually satisfy the pledge or pay off the note by December 31, 2016. This is true even if your IOU is payable upon demand by the charity.

Gifts of Appreciated Property. Gifts of appreciated property that would result in long-term capital gain if sold generally produce even greater benefits for you than gifts made in cash, by check, or by credit card. The reason? You can generally deduct the full value of the contributed property (subject to the 30% of AGI limitation), even the gain portion that has never been taxed.

Gifts of Loss Property. Loss property is property that would generate a tax-deductible loss if you sold it. If you gave this property to charity you would lose your deduction for the loss in value of the property. So, sell the property, take the loss as a deduction, and use the proceeds of the sale to make your deductible charitable gift.

Gifts of Stock. A gift of stock to charity is considered complete, and thus deductible, when the stock certificate is delivered to the charity, transferred to its brokerage account, or postmarked. Ownership of the stock certificate should be changed to the charity on the books of the corporation issuing the stock.



Deduction Limitations for Contributions to Public Charities

TYPE OF PROPERTY CONTRIBUTED	DEEMED AMOUNT OF CONTRIBUTION	PERCENTAGE LIMITATION ¹
Cash	Actual dollar amount	50%
Appreciated ordinary income property ² or appreciated short-term capital gain property ³	Donor's tax basis	50%
Appreciated long-term capital gain property ⁴		
(a) General rule	Fair market value	30%
(b) Election made to reduce amount of contribution	Donor's tax basis	50%
(c) Tangible personal property put to unrelated use by donee charity	Donor's tax basis	50%

- 1 The applicable "percentage limitation" applies to the donor's contribution base, which is the donor's adjusted gross income (AGI) determined without regard to any net operating loss carryback. The limitation is applied on an annual basis. Any deductible contributions that exceed the current year's limitations may be carried over and deducted in the five succeeding tax years, subject to the percentage limitations in those years.
- 2 "Ordinary income property" is property that would produce ordinary income if sold by the individual.
- 3 "Short-term capital gain property" is property that would produce short-term capital gain if sold by the individual.
- 4 "Long-term capital gain property" is property that would produce long-term capital gain if sold by the individual.

Federal Estate and Gift Tax

2016 gift tax annual exclusion:	\$14,000
2016 top gift and estate tax rate:	40%
2016 unified credit:	\$5,450,000*

* Applies both to lifetime gifts and estate transfers

Charitable Giving Options for Gifts to Public Charities

Outright Gift of Cash. Simplest of all gifts to carry out. Just transfer cash, write a check or charge the amount to your credit card. It is often possible to execute a cash gift online or by text message. Gift is fully deductible up to 50% of AGI with a 5-year carryover of any excess deduction.

Outright Gift of Long-Term Capital Gain Property. Also easy to carry out. Just transfer possession and any document of title to charity. Gift is fully deductible up to 30% of AGI, with a 5-year carryover provision. No capital gains tax on the appreciation.

Charitable Gift Annuity. Donor transfers gift to charity and receives back a fixed lifetime (or joint lifetime) income. Income amount is based on age(s) of beneficiary(ies) and is partly tax-free when received. If appreciated property is given, some of the capital gain is avoided, and some is recognized ratably over donor's life expectancy. Donor can deduct immediately the value of the property given, minus the present value of the income stream from the annuity, subject to the 50% or 30% limitation.

Charitable Remainder Annuity Trust (CRAT). CRAT receives gift and pays back to donor or other beneficiary at least 5% of initial principal for life or for a period of up to 20 years. Can pay out tax-exempt income, but cannot receive subsequent contributions. No capital gains tax at the time appreciated property is transferred to the trust. Donor can deduct the present value of charity's remainder interest, subject to the 50% or 30% limitation.

Charitable Remainder Unitrust (CRUT). CRUT receives gift and pays back to donor or other beneficiary at least 5% of the annual value of the trust assets, either for life or for a period of years up to 20. If assets change in value, so does payout amount. Can pay out tax-exempt income, and can receive subsequent contributions. No capital gains tax when appreciated property is transferred to the trust. Donor can deduct the present value of charity's remainder interest, subject to the 50% or 30% limitation.

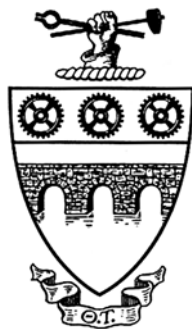
Charitable Lead Trust (CLT). Donor makes a gift to the CLT. The CLT pays income to a charity for a number of years or for a lifetime(s). When the trust term ends, the trust property either reverts back to the donor (grantor trust) or is distributed to family members (non-grantor trust). In times of low applicable federal rates, the CLT can be an effective way to minimize federal transfer taxes and benefit charity. The donor's deduction depends on the type of CLT selected.

The IRA Charitable Rollover

Legislation signed at the end of 2015 permanently extended the IRA Charitable Rollover, which allows individuals age 70½ or older to make a charitable gift and satisfy required minimum distribution rules without paying taxes.

The IRA Charitable Rollover rules:

- You must be 70½ or older on the date of the transfer and assets must be transferred directly from an IRA to a qualified charity.
- You may exclude the gift amount for federal income tax purposes (up to \$100,000).
- The amount transferred counts toward your required minimum distribution.
- The IRA trustee reports the qualified charitable distribution on IRS Form 1099-R and you list the distribution as non-taxable on your federal 1040 income tax return.



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