



Important Changes for 2017



Due Date of Return

The due date for filing a 2017 return is Tuesday, April 17, 2018. This is because April 15, 2018 is a Sunday and Emancipation Day, a legal holiday in the District of Columbia, is observed on Monday, April 16, 2018.

Standard Deduction Increases

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2017 are:

- \$12,700 – Married Filing Jointly or Qualifying Widow(er) (increase of \$100)
- \$9,350 – Head of Household (increase of \$50)
- \$6,350 – Single or Married Filing Separately (increase of \$50)

Taxpayers who are 65 and Older or are Blind

For 2017, the additional standard deduction for taxpayers who are 65 and older or blind is:

- \$1,550 – Single or Head of Household (no change)
- \$1,250 for married taxpayers or Qualifying Widow(er) (no change)

Personal Exemption Amount

The amount a taxpayer can deduct for each exemption increased to \$4,050 for 2017 (no change).

Retirement Savings Contribution Credit Income Limits Increased

To claim this credit, the taxpayer's modified adjusted gross income (MAGI) must not be more than \$31,000 for Single, Married Filing Separately, or Qualifying Widower (increase of \$250). MAGI must not be more than \$46,500 (increase of \$375) for Head of Household, and \$62,000 (increase of \$500) for Married Filing Jointly.

Earned Income Credit (EIC)

For 2017, the maximum credit increased to:

- \$6,318 with three or more children
- \$5,616 with two children
- \$3,400 with one child
- \$510 with no children

Earned Income Amount Increased

To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$48,340 (\$53,930 if Married Filing Jointly) with three or more qualifying children
- \$45,007 (\$50,597 if Married Filing Jointly) with two qualifying children
- \$39,617 (\$45,207 if Married Filing Jointly) with one qualifying child
- \$15,010 (\$20,600 if Married Filing Jointly) with no qualifying child

Investment Income

Taxpayers whose investment income is more than \$3,450 cannot claim the EIC.

Standard Mileage Rate

For 2017, the following rates are in effect:

- 53.5 cents per mile for business miles driven
- 17 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations (no change)

Itemized Deductions

Medical – The 7.5% threshold for taxpayers who are age 65 or older has expired. All taxpayers are now subject to a 10% AGI threshold.

Education Benefits

American opportunity credit for 2017 is gradually reduced (phased out) if taxpayers' MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is \$90,000 or more (\$180,000 or more if Married Filing Jointly). There is no change.

To claim the American opportunity credit, taxpayers must provide the educational institution's employer identification number (EIN) on Form 8863. Taxpayers should be able to obtain this information from Form 1098-T or the educational institution.

Lifetime learning credit for 2017 is gradually reduced (phased out) if taxpayers' MAGI is between \$56,000 and \$66,000 (\$112,000 and \$132,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is \$66,000 or more (\$132,000 or more if Married Filing Jointly).

Student loan interest deduction begins to phase out for taxpayers with MAGI in excess of \$65,000 (\$135,000 for joint returns) and is completely phased out for taxpayers with MAGI of \$80,000 or more (\$165,000 or more for joint returns).

Eligible Long-Term Care Premium Limits Increased

For 2017, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040) Itemized Deductions.

\$410: age 40 or under

\$770: age 41 to 50

\$1,530: age 51 to 60

\$4,090: age 61 to 70

\$5,110: age 71 and over



The limit on premiums is for each person.

Foreign Earned Income Exclusion

For 2017, the maximum foreign earned income exclusion will be \$102,100, up from \$101,300 for 2016.

Link & Learn Taxes – Optional Courses

Health Savings Account (HSA) Deduction

The annual contribution limits on deductions for HSAs for individuals with self-only coverage is \$3,400 (increase of \$50) and \$6,750 for family coverage (no change). There is an additional contribution amount for taxpayers who are age 55 or older.



Deduction Amount and Modified AGI Limit for Traditional IRA Contributions Increased

For 2017, the maximum IRA deduction remains at \$5,500 (\$6,500 if age 50 or older). For taxpayers who are covered by a retirement plan at work, the deduction for contributions to a traditional IRA is reduced (phased out) if the modified AGI is:

- More than \$99,000 but less than \$119,000 for a married couple filing a joint return or a qualifying widow(er) if both spouses are covered by a retirement plan,
- More than \$62,000 but less than \$72,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return

For an IRA contributor who is **not** covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$186,000 and \$196,000.



Extended and Expired Legislation

As a reminder, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) made the following tax provisions permanent:

- Adjustments for up to \$250 for educator classroom expenses. This provision was modified to include certain expenses related to professional development courses the taxpayer takes related to the curriculum they teach or to their students. The deduction amount will be indexed for inflation for future years.
- Qualified Charitable Distribution (QCD).
- State and local general sales tax deduction.

The PATH Act extended the following provisions only through December 31, 2016. They are expired for 2017.

- Exclusion from gross income of qualified principal residence indebtedness
- Mortgage insurance premiums deductible as qualified residence interest
- Deduction for qualified tuition & fees
- Credit for nonbusiness energy property (residential energy credit)

Under the Protecting Americans from Tax Hikes (PATH) Act, ITINs that have not been used on a federal tax return at least once in the last three consecutive years will expire Dec. 31, 2017, and ITINs with middle digits 70, 71, 72 or 80 will also expire at the end of the year. Affected taxpayers who expect to file a tax return in 2018 must submit a renewal application.



Congress may enact additional legislation that will affect taxpayers after this publication goes to print. Any changes will be reflected in Publication 4491-X, VITA/TCE Training Supplement, available in mid-January on www.irs.gov.

Affordable Care Act: Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)

New rules enacted under the 21st Century Cures Act of 2016 allow eligible employers to offer a qualified small employer health reimbursement arrangement (QSEHRA) to their eligible employees. Under a QSEHRA, an eligible employer can reimburse eligible employees for health care costs, including premiums for Marketplace health insurance. If taxpayers were covered under a QSEHRA, their employer should have reported the annual permitted benefit in box 12 of Form W-2 with code FF. If the QSEHRA is affordable for a month, no PTC is allowed for the month. If the QSEHRA is unaffordable for a month, taxpayers must reduce the monthly PTC (but not below -0-) by the monthly permitted benefit amount.

W-2 Verification Code

This initiative is one in a series of steps to combat tax-related identity theft and refund fraud. The objective is to verify Form W-2 data submitted by taxpayers on e-filed individual tax returns.

Form W-2 will include these instructions to taxpayer and tax preparers: If you are e-filing and if there is a code in Box 9, enter it when prompted by your software. This code assists the IRS in validating the W-2 data submitted with your return. The code is not entered on paper-filed returns.

Proposed Regulations

Certain changes were made to Publications 4491 and 4012 due to proposed regulations published by the IRS on January 19, 2017. These regulations are proposed to apply to taxable years beginning after the date the regulations are published as final regulations in the Federal Register. However, pending the issuance of the final regulations, taxpayers may choose to apply these proposed regulations in any open taxable years. Since most of these provisions are advantageous to taxpayers, we have included them in the training publications:

- An individual is not a qualifying child of a person if that person is not required to file an income tax return, and either does not file an income tax return or files an income tax return solely to claim a refund of estimated or withheld taxes.
- A taxpayer may treat a home's fair market rental value as a cost of maintaining a household (instead of the sum of payments for mortgage interest, property taxes, and insurance).
- The annual cost of maintaining a household when a qualifying child or dependent resides in the household for less than the entire taxable year, in certain circumstances, may be prorated on a monthly basis.
- The proposed regulations also, in certain circumstances, recognize the creation of a new household during a year and treat shared living quarters as separate households.
- If an individual meets the definition of a qualifying child for more than one taxpayer and the individual is not treated as the qualifying child of one of those taxpayers under the tiebreaker rules, then the individual will not prevent that taxpayer from claiming the childless EIC if he or she meets the other requirements of that section.
- Governmental payments (such as TANF) made to a recipient that is used, in part, to support others are treated as support of the others provided by the recipient, whereas any part of such a payment used for the support of the recipient would constitute support of the recipient by a third party. For example, if a mother receives TANF and uses the TANF payments to support her children, the proposed regulations treat the mother as having provided that support.

- A nonpermanent failure to occupy a home by reason of illness, education, business, vacation, military service, institutionalized care for a child who is permanently and totally disabled, or incarceration may be treated as a temporary absence due to special circumstances. This definition of temporary absence applies to the residency test for a qualifying child, to the relationship test for a qualifying relative who does not have a listed relationship to the taxpayer, and to the requirements to maintain a household for surviving spouse and Head of Household.
- The qualifying child of a Qualifying Widow(er) is a child, stepchild, or adopted child who qualifies as the taxpayer's dependent for the year or would qualify as the taxpayer's dependent except that he or she does not meet the gross income test, or does not meet the joint return test, or except that the taxpayer may be claimed as a dependent by another taxpayer.
- A taxpayer other than the adopting "individual" may be eligible to claim an exemption for an adopted child. For example, the parent of the adopting parent may claim a dependency exemption for the legally adopted child of the taxpayer's son or daughter (just as biological grandparents may claim an exemption for a grandchild) if all other requirements are met.
- An authorized placement agency also may be an Indian Tribal Government (ITG), or an agency or organization authorized by, or a political subdivision of, an ITG that places children in foster care or for adoption.

Changes to Order of Pub 4012

- Tabs B, K, and N have been reconfigured.
- Tab B is now called "Starting a Return/Filing Status" and contains all the information about the intake sheet, starting a return in TaxSlayer, determining the filing status and entering it in TaxSlayer.
- Tab K has been renamed "Finishing the Return" and now contains information from the prior year's Tabs K and N about completing the e-File section, performing the quality review and printing the return.
- Tab N contains information about moving around in TaxSlayer. It also contains the list of navigation hints that used to be in Tab D.
- ACA information has been moved to Tab H, which is now called "Other Taxes, Payments, and ACA."

