



# 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 and Qualified Dividend Income Maximum Tax Rates |              |                            |              |
|--|--------------|----------------------------|--------------|
| Taxable Income   | Maximum Rate | Taxable Income             | Maximum Rate |
| <b>Single</b>  |              | <b>MFJ or QW</b>           |              |
| \$0 to \$38,600.....   | 0%           | \$0 to \$77,200.....       | 0%           |
| \$38,601 to \$425,800.....   | 15%          | \$77,201 to \$479,000..... | 15%          |
| \$425,801 and over .....   | 20%          | \$479,001 and over .....   | 20%          |
| <b>HOH</b>   |              | <b>MFS</b>                 |              |
| \$0 to \$51,700.....   | 0%           | \$0 to \$38,600.....       | 0%           |
| \$51,701 to \$452,400.....   | 15%          | \$38,601 to \$239,500..... | 15%          |
| \$452,401 and over .....   | 20%          | \$239,501 and over .....   | 20%          |
| <b>Estates and Trusts</b>  |              |                            |              |
| \$0 to \$2,600 .....   | 0%           |                            |              |
| \$2,601 to \$12,700 .....  | 15%          |                            |              |
| \$12,701 and over .....  | 20%          |                            |              |

## Itemized Deductions and Personal Exemptions

**Itemized deduction phaseout.** Effective for 2018, the overall limitation on itemized deductions is suspended. There is no limitation on deductions due to income.

**Taxes paid.** Effective for 2018, the itemized deduction for state and local taxes is limited to \$10,000 (\$5,000 MFS). Foreign real property taxes are no longer deductible.

**Home mortgage interest.** Effective for 2018, a taxpayer may treat no more than \$750,000 as acquisition indebtedness (\$375,000 MFS). The \$1,000,000 (\$500,000 MFS) limitation continues to apply for any indebtedness incurred prior to December 15, 2017.

The deduction for home equity indebtedness (other than acquisition debt) is no longer allowed.

**Personal exemptions.** Effective for 2018, the deduction for personal exemptions is suspended.

## Individual Retirement Arrangements (IRAs)

| IRA Individual Contribution Limits |              |         |
|------------------------------------|--------------|---------|
|                                    | 2018         | 2017    |
| 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             |
|------------|------------------------------|----------------------------|-----------------|
| 2018 ..... | \$101,000 to \$121,000 ..... | \$63,000 to \$73,000 ..... | \$0 to \$10,000 |
| 2017 ..... | \$99,000 to \$119,000 .....  | \$62,000 to \$72,000 ..... | \$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.



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| Tax Year | MFJ                    | MFS             |
|----------|------------------------|-----------------|
| 2018     | \$189,000 to \$199,000 | \$0 to \$10,000 |
| 2017     | \$186,000 to \$196,000 | \$0 to \$10,000 |

### Roth IRA Phaseouts

|                      | 2018                   | 2017                   |
|----------------------|------------------------|------------------------|
| MFJ or QW            | \$189,000 to \$199,000 | \$186,000 to \$196,000 |
| Single, HOH, or MFS* | \$120,000 to \$135,000 | \$118,000 to \$133,000 |
| 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)

### 2018 Retirement Savings Contribution Credit Percentage

| Rate | MFJ                 | HOH                 | Single, QW, MFS     |
|------|---------------------|---------------------|---------------------|
| 50%  | \$0 – \$38,000      | \$0 – \$28,500      | \$0 – \$19,000      |
| 20%  | \$38,001 – \$41,000 | \$28,501 – \$30,750 | \$19,001 – \$20,500 |
| 10%  | \$41,001 – \$63,000 | \$30,751 – \$47,250 | \$20,501 – \$31,500 |
| 0%   | Over \$63,000       | Over \$47,250       | Over \$31,500       |

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

## Child Tax Credit

**AGI phaseout.** The credit (up to \$2,000 per qualifying child) is reduced by \$50 for each \$1,000 of modified AGI above:

- \$400,000 Married Filing Jointly.
- \$200,000 Single, Head of Household, Qualifying Widow(er), or Married Filing Separately.

## Family Tax Credit

A nonrefundable credit of up to \$500 is allowed for dependents other than a qualifying child for the Child Tax Credit.

## Adoption Expenses

|                            |                       |
|----------------------------|-----------------------|
| 2018 maximum credit        | \$13,810              |
| 2018 maximum exclusion     | \$13,810              |
| AGI phaseout               | \$207,140 – \$247,140 |
| Unused credit carryforward | 5 years               |

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## 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) 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

### 2017 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<br>\$160,000–\$180,000 (MFJ)  |
| <i>Lifetime Learning Credit</i>                  | Tax credit (non-refundable).                              | \$2,000 credit per tax return.          | \$57,000–\$67,000<br>\$114,000–\$134,000 (MFJ)  |
| <i>Coverdell Education Savings Account (ESA)</i> | Tax-free earnings.  | \$2,000 contribution per beneficiary.   | \$95,000–\$110,000<br>\$190,000–\$220,000 (MFJ) |
| <i>U.S. Savings Bond Interest Exclusion</i>      | Tax-free interest.  | Amount of qualified education expenses. | \$79,550–\$94,550<br>\$119,300–\$149,300 (MFJ)  |
| <i>Student Loan Interest Deduction</i>           | Above-the-line tax deduction.                             | \$2,500 deduction.                      | \$65,000–\$80,000<br>\$135,000–\$165,000 (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.