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## Tax Flash

New federal tax developments  
from Grant Thornton's Washington National Tax Office

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### Tax benefit thresholds rise with inflation adjustments greater than last year

The IRS has announced its annual cost-of-living and inflation adjustments for 2018, offering a bump that is proportionately greater than the modest rise from the year before. Tax laws require the IRS to adjust the dollar amounts of dozens of tax provisions each year to account for inflation. The tax brackets were adjusted with an approximate inflation rate of 1.94%.

The contribution limit to 401(k) plans increased to \$18,500 while the limit for IRAs remained unchanged at \$5,500. The annual gift tax exclusion finally increased to \$15,000 after five years of remaining flat at \$14,000. This year marked a noticeable increase across the board, including the exemptions on estate and generation-skipping transfer taxes, each of which increased by \$110,000, to \$5.6 million. The wage cap on Social Security taxes, which jumped significantly in 2017, rose modestly to \$128,700, up \$1,500.

The IRS announced the adjustments in a pair of releases: [Notice 2017-64](#) for pension plan and retirement account limits, and [Rev. Proc. 2017-58](#) for most other items in the tax code. The IRS announced inflation adjustments for health savings accounts (HSAs) earlier this year in [Rev. Proc. 2017-37](#), while the Social Security Administration [announced its inflation adjustments](#) for 2018 on Oct. 13. The following provides more information on the significant inflation adjustments.

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Individual tax brackets for 2017					
Rate	Single filer	Head of household	Joint filer	Married filing separate	Trust and estate
10%	\$1–\$9,525	\$1–\$13,600	\$1–\$19,050	\$1–\$9,525	No 10% bracket
15%	\$9,526–\$38,700	\$13,601–\$51,850	\$19,051–\$77,400	\$9,526–\$38,700	\$1–\$2,600
25%	\$38,701–\$93,700	\$51,851–\$133,850	\$77,401–\$156,150	\$38,701–\$78,075	\$2,601–\$6,100
28%	\$93,701–\$195,450	\$133,851–\$216,700	\$156,151–\$237,950	\$78,076–\$118,975	\$6,101–\$9,300
33%	\$195,451–\$424,950	\$216,701–\$424,950	\$237,951–\$424,950	\$118,976–\$212,475	\$9,301–\$12,700
35%	\$424,951–\$426,700	\$424,951–\$453,350	\$424,951–\$480,050	\$212,476–\$240,025	No 35% bracket
39.6%	More than \$426,700	More than \$453,350	More than \$480,050	More than \$240,025	More than \$12,700

### Standard deductions and personal exemption

#### Standard deductions:

- \$13,000 (up \$300) for joint filers
- \$6,500 (up \$150) for single filers
- \$9,550 (up \$200) for head of household
- \$1,300 (up \$50) for the additional standard deduction for the aged/blind (\$1,600 if also single or head of household)

#### Personal exemption:

- \$4,150 (up \$100)

### Alternative minimum tax

#### Alternative minimum tax (AMT) exemption:

- \$55,400 (up \$1,100) for single filers and head of household
- \$86,200 (up \$1,700) for joint filers
- \$43,100 (up \$850) for married filing separate

#### Beginning of AMT exemption phaseout:

- \$123,100 (up \$2,400) for single filers and head of household
- \$164,100 (up \$3,200) for joint filers
- \$82,050 (up \$1,600) for married filing separate

#### AMT rate of 26% (28% thereafter):

- First \$95,750 (up \$1,850) in income for married filing separate (28% thereafter)
- First \$191,500 (up \$3,700) for all other filers (28% thereafter)

### 'Pease' and personal exemption phaseout

The "Pease" phaseout of itemized deductions and the personal exemption phaseout (PEP) will begin at the following thresholds in 2018:

- \$160,000 (up \$3,100) for separate filers
- \$266,700 (up \$5,200) for single filers
- \$320,000 (up \$6,200) for joint filers
- \$293,350 (up \$5,700) for head of household

### **Kiddie tax**

The “kiddie” tax thresholds are unchanged for 2018 and will continue to apply the following tax treatment to unearned income of a child under 18 (24 if the child is a student):

- First \$1,050 not subject to tax
- Next \$1,050 taxed at child’s rate
- \$2,100+ taxed at parent’s marginal rate

### **Transportation fringe benefit**

The 2018 income exclusion for employer-provided transportation benefits rose modestly to \$260 for parking and transit.

### **Section 179 expensing**

The amount that can be expensed under Section 179 will increase by \$10,000, to \$520,000, in 2018 with the start of the phaseout threshold increasing by \$40,000 to \$2,070,000.

### **Expatriation**

The average annual net income tax for determining whether a taxpayer is a covered expatriate will increase in 2018 by \$3,000, to \$165,000. The amount that can be excluded from “gross income” for purposes of calculating the “exit tax” will increase in 2018 by \$14,000, to \$713,000.

### **Penalties**

#### **Minimum failure-to-file tax return penalty:**

- \$215 (up \$5) for failures under Section 6651(a)
- \$200 (unchanged) for partnership return
- \$200 (unchanged) for S corporation return

#### **Per-return penalties for failing to file a correct information return or payee statement:**

- \$50 (unchanged) for a corrected return filed within 30 days
- \$100 (unchanged) for a corrected return filed by Aug. 1
- \$270 (up \$10) for full failure
- \$540 (up \$10) for intentional disregard

#### **Maximum penalties for failing to file correct information returns or payee statements:**

- More than \$5 million in gross receipts
  - \$547,000 (up \$11,000) for correct returns filed within 30 days
  - \$1,609,500 (up \$31,500) for correct returns filed by Aug. 1
  - \$3,282,500 (up \$64,000) for full failures
- \$5 million or less in gross receipts
  - \$191,000 (up \$3,500) for correct returns filed within 30 days
  - \$547,000 (up \$11,000) for correct returns filed by Aug. 1
  - \$1,094,000 (up \$21,500) for full failures

## Key transfer tax adjustments

- **Estate and gift tax exemption:** \$5.6 million (up \$110,000)
- **Generation-skipping transfer tax exception:** \$5.6 million (up \$110,000)
- **Annual gift tax exclusion:** \$15,000 (up \$1,000)

## Retirement plans

### Contribution/deferral limits:

- \$18,500 (up \$500) for 401(k), 403(b), 402(g)(1)
  - \$6,000 for catch-up contributions for those 50 and older
- \$5,500 (unchanged) for IRA
  - \$1,000 for catch-up contributions for those 50 and older (not indexed)

### Income phaseout ranges:

- Deducting IRA contributions:
  - \$63,000 to \$73,000 (up \$1,000) for single and head-of-household filers covered by workplace plans
  - \$101,000 to \$121,000 (up \$2,000) for joint filers when a contributing spouse is covered by a workplace plan
  - \$189,000 to \$199,000 (up \$3,000) for joint filers when a contributing spouse is covered by a workplace plan
- Contributing to a Roth IRA:
  - \$189,000 to \$199,000 (up \$3,000) for joint filers
  - \$120,000 to \$135,000 (up \$2,000) for single and head-of-household filers

### Pension plans:

- \$220,000 (up \$5,000) annual benefit limit under Section 415(b)(1)(A)
- \$55,000 (up \$1,000) annual limit under 415(c)(1)(A)

## Health accounts

### HSA contribution limits:

- \$3,450 (up \$50) for self-only coverage
- \$6,900 (up \$150) for family coverage

### HSA high-deductible plan requirements:

- \$1,350 minimum deductible for self-only coverage
- \$2,700 minimum deductible for family coverage
- \$6,650 limit on out-of-pocket expenses for self-only coverage
- \$13,200 limit on out-of-pocket expenses for family coverage

### Flexible spending account limit:

- \$2,650 (up \$50)

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