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Key Numbers for the Year 2016

Estate Planning Strategies

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The MassMutual Estate and Business Planning department is a hallmark of excellence and is staffed with dedicated and skilled professionals who provide consultation to producers and other professionals.

Our objective is to ensure that each client's estate and business planning goals are met in a custom-tailored manner to suit the unique and individual needs for each of our clients. Our areas of focus include the following:

- Business Succession Planning
- Estate Planning
- Charitable Giving Arrangements
- Employee Benefit Arrangements

Please call 1.800.767.1000, extension 41555 with any questions.

The information provided is not written or intended as specific tax or legal advice. MassMutual, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

Key Numbers for the Year 2016

Updated by Kathryn Wakefield, JD, CLU

For 2016, the continued low interest rate resulted in little to no inflation adjustments. Because 2016 is a presidential election year, tax change and tax reform will be discussed frequently. It is unlikely that significant changes will occur until at least 2017.

Gift, Estate, and GST Tax Exemptions

The estate, gift (lifetime) and generation-skipping transfer tax exemption amounts were increased to $5,450,000 with a top tax rate of 40% for 2016. The exemptions have a base of $5,000,000, indexed for inflation as of the year 2011.

"Portability" of any unused estate tax exemption at the death of the first spouse allows for the surviving spouse to benefit from any of his or her spouse's unused exemption.

Annual Gift Tax Exclusion

The gift tax annual exclusion remains unchanged at $14,000 for 2016.

Marital Gift Exclusion for Non-Citizen Spouse Recipient

The unlimited gift tax marital deduction is available only if the recipient spouse is a citizen. If a transfer of property is made to a non-citizen spouse, the unlimited marital deduction is not available. The gift tax annual exclusion for gifts to the donee spouse increased to $148,000 for 2016.

Special Use Valuation

An executor may elect to value real property used in a farm or business on the basis of the property's actual value rather than highest or best use, producing a value of less than the property's fair market value. If the statutory conditions are met, the maximum allowable reduction from fair market value under special use valuation is **$1,110,000**.

Special 6166 Deferral of Tax on Closely Held Business

Section 6166 provides an extension of time to pay estate taxes attributable to a business interest. If certain requirements are satisfied, the executor may elect to defer payment of the tax for up to five years and, thereafter, pay the tax in up to 10 annual installments. During the first four years of this extended payment period, only interest on the deferred tax needs to be paid.

A special 2% interest rate applies to the portion of tax generated by the first $1,000,000 (indexed each year) of business value. The excess tax will bear interest at 45% of the regular under-payment rate. After the initial four-year period, the principal amount of the estate tax liability, together with interest on the unpaid balance, must be paid off in 10 or fewer annual installments.

For an estate of a decedent dying in the calendar year 2016, the dollar amount used to determine the "2%" portion of the estate tax payable in installments under Internal Revenue Code (IRC) § 6166 increased to **$1,480,000**.

Retirement Plans

Defined Benefit Dollar Limit

For defined benefit plans in 2016, the maximum benefit at age 65 under IRC § 415(b) remains unchanged and cannot exceed the lesser of:

1 | **$210,000**, or

2 | 100% of the participant's average compensation for his highest three years of active participation.

Defined Contribution Annual Addition Maximum

The annual limitation applicable to defined contributions plans for 2016 remains unchanged and is the lesser of:

1 | **$53,000**, or

2 | 100% of the participant's annual compensation.

Maximum Compensation Limits

In 2016, the maximum amount of compensation that can be considered for qualified plan purposes remains unchanged at **$265,000**.

Elective Deferral Limit 401(k) and 403(b) Plans

- The limit on elective deferrals for 401(k) and 403(b) plans remains unchanged at **$18,000** for 2016.
- Additional catch-up contributions for individuals age 50 or older to 401(k) and 403(b) also remains unchanged at **$6,000** for the year 2016.

Elective Deferral Limit for § 457 Nonqualified Deferred Compensation Plans

The 2016 limit on deferrals for IRC § 457(b)(2) deferred compensation plans remains unchanged at **$18,000**. Additional catch-up contributions for individuals age 50 or older also remains unchanged at **$6,000**. The catch-up contributions only apply to governmental plans.

Highly Compensated Employee Definitional Limits

The dollar limit for determining who is a highly compensated employee remains unchanged at **$120,000** for 2016. Therefore, an employee is a highly compensated active employee with respect to a plan year if he or she:

1 | was a 5% owner at any time during either the determination year or look-back year, or

2 | received compensation for the preceding year in excess of **$120,000** (2016) from the employer and, if the employer elects, was in the "top-paid" group for that year. IRC § 414(q).

Elective Deferral Limit for SIMPLE IRAs and SIMPLE 401(k) Plans

The limit on SIMPLE plan contributions remains unchanged at $12,500 in 2016. Catch-up contribution limits for individuals aged 50 and over also remains unchanged at $3,000.

Traditional IRA and Roth IRA

- The Traditional IRA and Roth IRA contribution limit for 2016 remains unchanged at **$5,500**.
- The IRA catch-up limit also remains unchanged at **$1,000** in 2016.

Traditional IRA Deductibility

An individual or spouse covered by a retirement plan at work can deduct their IRA contributions if they meet the following Modified Adjusted Gross Income (MAGI)[1] requirements.

Tax Filing Status	2016 MAGI	Allowed Deduction
Single	$61,000 or less	100%
	$61,001 – $70,999	Partial
	$71,000 or more	None
Married Filing Jointly (both covered)	$98,000 or less	100%
	$98,001 – $117,999	Partial
	$118,000 or more	None
Married Filing Jointly (one not covered)	$184,000 or less	100%
	$184,001 – $193,999	Partial
	Over $194,000	None
Married Filing Separately	Less than $10,000	Partial
	$10,000 or more	None

[1] Modified Adjusted Gross Income (MAGI) impacts the extent to which a participant can deduct his or her contributions to a traditional IRA. Modified Adjusted Gross Income is Adjusted Gross Income found on IRS Form 1040 with certain deductions added back (i.e., IRA deductions, student loan interest deduction; Series EE Savings Bond Interest Exclusion, deduction for qualified tuition, foreign earned income exclusion, foreign housing exclusion) to determine MAGI.

Roth IRA Contributions

A Roth IRA is a type of individual retirement account with a tax structure different from that of the traditional IRA. Contributions are not tax-deductible, earnings on income are tax-deferred and qualified distributions are federal income tax-free. A taxpayer must have MAGI below certain levels and compensation to establish and make annual contributions to a Roth IRA.

Tax Filing Status	2016 MAGI[2]	Contributions Allowed
Single	Less than $117,000	100%
	$117,000 – $131,999	Partial
	$132,000 or more	None
Married Filing Jointly	Less than $184,000	100%
	$184,000 – $193,999	Partial
	$194,000 or more	None
Married Filing Separately	Less than $10,000	Partial
	$10,000 or more	None

[2] Modified Adjusted Gross Income (MAGI) is important for Roth IRA because it impacts the extent that a taxpayer can make a contribution to a Roth. Modified Adjusted Gross Income is Adjusted Gross Income on IRS Form 1040. Certain amounts are added back to this amount to determine MAGI.

Income Tax

Net Unearned Income – Kiddie Tax

The amount, which is used to reduce the net unearned income reported on a child's return that is subject to the "kiddie tax," remains unchanged at $1,050. Income less than this amount is not taxed. Income in excess of this amount but less than two times ($2,100) is taxed at the child's tax rates. Unearned income greater than two times the $1,050 amount ($2,100 in 2016) is taxed at the parents' highest marginal tax rate. If the child's income is greater than $1,050 and less than $10,500 (and certain requirements are met) the parent can elect to either report the kiddie tax on their income tax return or on the child's return.

The kiddie tax applies to a child who is:

- under age 18 regardless of whether their earned income equals more than one-half of their support;
- 18, or if a full-time student, between 19-23, at the end of the applicable year and the child's earned income does not exceed one-half of his or her support;
- has at least one living parent at the close of the tax year; or
- does not file a joint return for the tax year.

Standard Deduction

The standard deduction is a dollar amount that reduces the amount of income on which a taxpayer is taxed. The standard deduction varies by filing status and is not available for taxpayers that itemize their deductions. There is an additional dollar amount that is available for age, blindness or both.

Standard Deduction

Married Filing Jointly/Surviving Spouse	$12,600
Head of Household	$ 9,300
Unmarried Individuals	$ 6,300
Married Filing Separately	$ 6,300
Additional aged/blind – Married	$ 1,250
Additional aged/blind – Unmarried	$ 1,550
Taxpayer claimed as dependent Greater of $1,050 or $350 plus earned income	

Limitation on Itemized Deductions (Pease)

Individuals whose Adjusted Gross Income exceeded the following "threshold amounts" were required to reduce their itemized deductions:

- Married filing jointly – $311,300
- Married filing separately – $155,650
- Single – $259,400
- Head of Household – $285,350

The Pease phase-out is the lesser of 3% of the excess over the threshold amount, or 80% of allowable deductions. There is no reduction of medical expenses, investment interest, or casualty/theft and gambling losses.

Example: Jim and Sally are married and earn $350,000.

Pease adjustment: ($350,000 - $311,300) x 3% = $1,161.00 reduction.

Personal Exemption Phase-Out (PEP)

Taxpayers are entitled to claim a personal exemption for themselves and for their dependents. This personal exemption decreases their income subject to tax. The personal exemption amount is **$4,050 for 2016**.

The personal exemption is reduced at a rate of 2% for each $2,500 (or fraction thereof) that a taxpayer's adjusted gross income exceeds the same threshold amount as the Pease thresholds above.

Example: Jim and Sally are married and earn $350,000.

PEP adjustment: (($350,000 - $311,300)/$2,500) x 2% = 31% reduction in allowable personal exemption.

Long Term Care Insurance

Taxpayers with a long term care indemnity or per diem policy can exclude benefits only up to a daily limit. For 2016, the stated dollar amount of the per diem limitation under IRC § 7702B(d)(4) increases to **$340**.

Eligible Long Term Care Premium Deduction

Individual taxpayers who itemize may deduct the lesser of actual premium paid or eligible long term care premium as a medical expense on Schedule A of their IRS Form 1040. The eligible premium sets an age based limit at the insured's attained age before the close of the taxable year.

The age-based limits for 2016 are:

40 or less	$ 390
More than 40 but not more than 50	$ 730
More than 50 but not more than 60	$1,460
More than 60 but not more than 70	$3,900
More than 70	$4,870

Social Security

Maximum Taxable Earnings

Social Security wage base (OASDI) 7.65%	$118,500
Medicare portion (HI) 1.45%	No Limit

Social Security Tax Rates

Maximum Taxable Earnings

Employee/Employer	6.20%/ 6.20%*
Self Employed	12.40%

* To wage limit

Medicare Tax Rates

Tax Rate	Employee Rate
Employee/Employer	1.45%/1.45%
Self Employed	2.9%

Applies to all earned income with no limit.

Surtax*	Employee Rate
Employee/Employer	0.9%

Applies to earned income above: $200,000 for single taxpayers, and $250,000 for married filing jointly taxpayers.

*Patient Protection and Affordable Care Act of 2010

Capital Gains and Dividend Rates (Qualified Dividends Only)

Capital Gains Tax Rates That Apply Based on Ordinary Income Tax Rate

Ordinary income tax rate :	Qualified dividends and capital gains tax rate:
0%	0%
15%	0%
25%	15%
33%	15%
35%	15%
39.6%	20%

3.8% Net Investment Income Tax (NIIT)

This tax applies to interest, dividends, capital gains, rental income, passive investment income, annuities, taxable gains from the sale of a personal residence (in excess of the exclusion amount), or vacation homes. The tax applies to single individuals with MAGI of $200,000 per year and married couples with MAGI of more than $250,000.

Note – Net investment income subject to the NIIT does not include non-taxable distributions and loans from life insurance policies, unless they are received as an annuity. Distributions from life insurance policies that are not Modified Endowment Contracts are treated for tax purposes first as a return of the owner's investment in the contract (return of basis). Policy loans are not considered to be taxable distributions. Any taxable distribution from an annuity contract is subject to this surtax if the holder meets the income criteria.

LGBT Planning

As of June 26, 2015, the Supreme Court legalized same sex marriage for all 50 states. Therefore, for estate, retirement and financial planning purposes, a legally married couple is a legally married couple no matter who the spouse is.

Tax Rate Tables for 2016

Married Filing Jointly/Surviving Spouse

If Taxable Income Is:	The Tax Is:
Not over $18,550	10% of the taxable income
Over $18,550 but not over $75,300	$1,855 plus 15% of excess over $18,550
Over $75,300 but not over $151,900	$10,367.50 plus 25% of the excess over $75,300
Over $151,900 but not over $231,450	$29,517.50 plus 28% of the excess over $151,900
Over $231,450 but not over $413,350	$51,791.50 plus 33% of the excess over $231,450
Over $413,350 but not over $466,950	$111,818.50 plus 35% of the excess over $413,350
Over $466,950	$130,578.50 plus 39.6% of the excess over $466,950

Heads of Household

If Taxable Income Is:	The Tax Is:
Not over $13,250	10% of the taxable income
Over $13,250 but not over $50,400	$1,325 plus 15% of excess over $13,250
Over $50,400 but not over $130,150	$6,897.50 plus 25% of the excess over $50,400
Over $130,150 but not over $210,800	$26,835 plus 28% of the excess over $130,150
Over $210,800 but not over $413,350	$49,417 plus 33% of the excess over $210,800
Over $413,350 but not over $441,000	$116,258.50 plus 35% of the excess over $413,350
Over $441,000	$125,936 plus 39.6% of the excess over $441,000

Single

If Taxable Income Is:	The Tax Is:
Not over $9,275	10% of the taxable income
Over $9,275 but not over $37,650	$927.50 plus 15% of the excess over $9,275
Over $37,650 but not over $91,150	$5,183.75 plus 25% of the excess over $37,650
Over $91,150 but not over $190,150	$18,558.75 plus 28% of the excess over $91,150
Over $190,150 but not over $413,350	$46,278.75 plus 33% of the excess over $190,150
Over $413,350 but not over $415,050	$119,934.75 plus 35% of the excess over $413,350
Over $415,050	$120,529.75 plus 39.6% of the excess over $415,050

Married Filing Separate Returns

If Taxable Income Is:	The Tax Is:
Not over $9,275	10% of the taxable income
Over $9,275 but not over $37,650	$927.50 plus 15% of the excess over $9,275
Over $37,650 but not over $75,950	$5,183.75 plus 25% of the excess over $37,650
Over $75,950 but not over $115,725	$14,758.75 plus 28% of the excess over $75,950
Over $115,725 but not over $206,675	$25,895.75 plus 33% of the excess over $115,725
Over $206,675 but not over $233,475	$55,909.25 plus 35% of the excess over $206,675
Over $233,475	$65,289.25 plus 39.6% of the excess over $233,475

Estates and Trusts

If Taxable Income Is:	The Tax Is:
Not over $2,550	15% of the taxable income
Over $2,550 but not over $5,950	$382.50 plus 25% of the excess over $2,550
Over $5,950 but not over $9,050	$1,232.50 plus 28% of the excess over $5,950
Over $9,050 but not over $12,400	$2,100.50 plus 33% of the excess over $9,050
Over $12,400	$3,206 plus 39.6% of the excess over $12,400

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