

**Abstract:** Some years, taxpayers can't reap the full value of tax breaks they've claimed in the past. This brief article discusses the personal exemption phaseout and itemized deduction reduction, which can affect those whose AGIs have exceeded the applicable threshold.

## **Phaseouts and reductions: A tax-filing reminder**

As tax-filing season gets into full swing, there are many details to remember. One subject to keep in mind — especially if you've seen your income rise recently — is whether you'll be able to reap the full value of tax breaks that you've claimed previously.

What could change? If your adjusted gross income (AGI) exceeds the applicable threshold, your personal exemptions will begin to be phased out and your itemized deductions reduced. For 2016, the thresholds are \$259,400 (single), \$285,350 (head of household), \$311,300 (joint filer) and \$155,650 (married filing separately). These are up from the 2015 thresholds, which were \$258,250 (single), \$284,050 (head of household), \$309,900 (joint filer) and \$154,950 (married filing separately).

The personal exemption phaseout reduces exemptions by 2% for each \$2,500 (or portion thereof) by which a taxpayer's AGI exceeds the applicable threshold (2% for each \$1,250 for married taxpayers filing separately). Meanwhile, the itemized deduction limitation reduces otherwise allowable deductions by 3% of the amount by which a taxpayer's AGI exceeds the applicable threshold (not to exceed 80% of otherwise allowable deductions). It doesn't apply, however, to deductions for medical expenses, investment interest, or casualty, theft or wagering losses.

If your AGI is close to the threshold, AGI-reduction strategies (such as making retirement plan and Health Savings Account contributions) may allow you to stay under it. If that's not possible, consider the reduced tax benefit of the affected deductions before implementing strategies to accelerate or defer deductible expenses. Please contact our firm for specific strategies tailored to your situation.

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