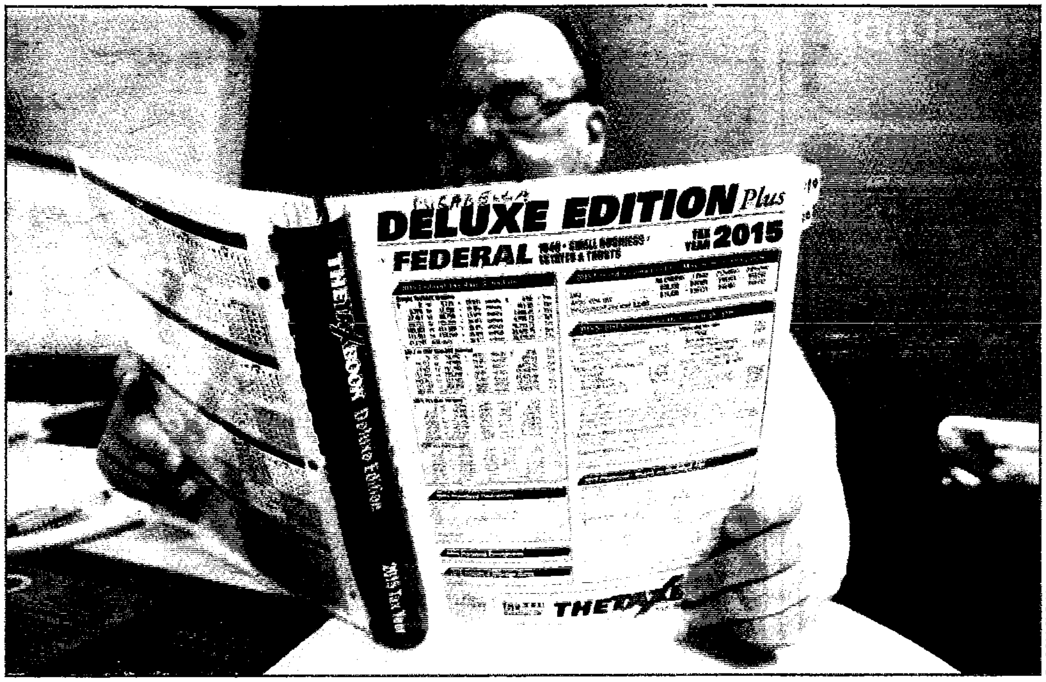

BARRY SLOAN

Rocco Prichinello, a senior tax adviser at H&R Block in East Northport, looks through a tax preparation binder. Tax changes next year include higher penalties for people lacking health insurance.

PREPARING AHEAD for '16 taxes

Experts explain ACA penalties, 'bracket creep'

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Today's the deadline for filing tax returns, so there's not much you can do now about your 2015 refund or underpayment.

But experts say it's not too early to start thinking about 2016 taxes — and to take steps to make sure you pay your fair share and no more.

Individual taxpayers generally will pay a little less in income taxes for 2016, certified public accountants say — unless they lack health insurance.

In that case, the Affordable Care Act — Obamacare — has a nasty surprise in store: higher penalties for being uninsured.

For most taxpayers, though, changes enacted late last year should keep their tax bills essentially stable when it's time next year to file their 2016 returns.

Ending 'bracket creep'

To protect taxpayers against inflation, the thresholds between tax brackets are rising. The idea is to prevent "bracket creep" — taxpayers getting bumped into higher tax brackets simply because they received a cost-of-living raise or increase in Social Security benefits.

For example, a married couple earning a total of between $151,901 and $231,450 in 2016 and filing their returns jointly will pay Uncle Sam $29,517, plus 28 percent of the amount over $151,900. The change? In 2015, the 28 percent rate was for everything over $151,200. So, the taxpayers in 2016 jump from the 25 percent to the 28 percent tax bracket $700 later. Similarly, they graduate through the lower tax brackets at higher dollar amounts. Therein lie the savings.

It's not much of a tax cut, though, because the $29,517 payment for 2016 is $130 more than last year's.

"What's happening is that, while rate brackets have gone up . . . you're not paying more tax," said certified public accountant Joseph J. Perry at Marcum LLP in Melville. "Essentially, you're paying less," said Perry, who is Marcum's firmwide partner in charge of tax and business services.

More affluent taxpayers pay rates as high as 39.6 percent of anything over $466,950.

New York State also has adjusted its rates and brackets for the same inflation-related reasons.

Standard deduction rising

The IRS also has announced annual inflation adjustments for more than 50 tax provisions. The standard deduction for heads of household, for example, rises to $9,300 for tax year 2016, up from $9,250 for tax year 2015. A standard deduction is an amount of income not subject to tax and that can be used to reduce a taxpayer's adjusted gross income if he or she chooses not to itemize deductions.

Another inflation protection is the raising of the Alternative Minimum Tax exemption. Taxpayers with incomes above the exemption whose regular federal income tax is below the Alternative Minimum Tax must pay the higher AMT amount. The exemption rose to $53,900 in 2016 ($83,800 for married couples filing jointly), up from $53,600 ($83,400 for couples filing jointly) in 2015.

The AMT was enacted to ensure that more affluent people pay at least a minimum amount of tax after deductions, but experts say it has ensnared large numbers of middle-class taxpayers in high-wage, high-cost places like the New York metro area.

Another change for 2016 is an increase in the maximum Earned Income Credit amount, to $6,269 for married taxpayers filing jointly who have three or more qualifying children, up from $6,242 in 2015. The credit is designed to lower the taxes on wage earners with low to moderate incomes.

Bigger bite

$2,085

Family maximum pen...
for not having health in...
ance in 2016, up from $...
in 2015.

ACA penalties increase

As for the Affordable Care Act, the maximum penalty for not having health insurance in 2016 will be the national average premium of the Bronze Plan on the federal health exchange, up to a family maximum of $2,085, or $695 per adult and $347 per child. Those are up from a family maximum last year of $975, or $325 per adult and $162.50 per child.

"That is a significant jump," said Jackie Perlman, principal tax research analyst at H&R Block's Tax Institute in Kansas City, Missouri.

There's more: If 2.5 percent of the family's income above the filing level threshold is greater than those flat dollar amounts, the family must pay the 2.5 percent of income instead. The minimum income threshold for filing a return varies by taxpayer according to factors such as age and marital status.

The IRS does, however, allow exemptions to the penalties in certain circumstances, such as if the lowest-cost coverage available to you is considered unaf-

See TAXES on A36

BARRY SLOAN

Marcum partner Joseph J. Perry says if your 2016 income stays the same as 2015's, your taxes will likely dip next year.

Tax changes for next year

TAXES from A35

fordable; you have a gap in coverage that is less than three consecutive months, or are having a hardship that prevents you from obtaining coverage.

Death tax shrinks

In another change for 2016, your heirs might inherit more tax-free assets if you die this year than if you had died last year. The tax exemption for estates and gifts has risen $20,000 since last year, to $5.45 million — a lifetime exclusion.

Families also will be able to salt away $100 more pretax money this year in health savings accounts to pay for unreimbursed medical expenses. The family limit is rising to $6,750. For single people, though, the limit remains at $3,350.

Mileage rates drop

Taxpayers who deduct costs of using their car for business and charitable trips, medical visits and moving will find the standard mileage rates reduced, the result of lower gasoline prices — down by 3.5 cents a mile to 54 cents for business miles, for example.

Among many items unchanged for the 2016 tax year is the maximum allowable contribution to 401(k) retirement accounts: $18,000 for the year, with another $6,000 in "catchup" contributions for people over age 50 and a $53,000 limit on total contributions by you and your employer if the latter is participating.

The relatively small number of tax code changes for 2016 is due partly to passage late last year of the "Protecting Americans from Tax Hikes Act of 2015," which extended or made permanent several temporary or expired tax provisions.

One is the option of deducting state and local general sales taxes on federal returns, in lieu of deducting state and local income taxes. The option had expired at the end of 2014. H&R Block's Perlman said the provision mainly affects people in states without an income tax, such as Florida, but it also can be beneficial for taxpayers who make a major purchase in 2016 such as a car or boat.

The bottom line, said Marcum CPA Perry: "If you make the same amount of income in 2016 as you did in 2015, you probably would pay a little bit less in taxes, all other things being equal."

Fast fact

Lower gas prices mean lower mileage deductions. The standard mileage rate for business miles drops 3.5 cents to 54 cents per mile in 2016.