Estate Planning Inflation Adjustments For Tax Year 2017

11.11.2016

Many estate planning provisions of the Internal Revenue Code contain brackets, exemptions, exclusions, deductions, or other figures that are adjusted annually for inflation. Every year around this time, the IRS releases these figures for use during the upcoming year. That tradition continues with **Revenue Procedure 2016-55**.

Transfer Tax Provisions

The good news first: taxpayers will see their basic exclusion amount (and their GST exemption amount) increase in 2017 to $5,490,000. This $40,000 increase from 2016 may provide additional planning opportunities. Other relevant figures will also increase in 2017. The annual exclusion for gifts to a spouse who is not a U.S. citizen increased to $149,000, a $1,000 increase from last year, and the gift amount from a foreign person that triggers information reporting obligations by the recipient increased by a whopping $126 to $15,797. On the other hand, for the third consecutive year the gift tax annual exclusion will remain unchanged at $14,000.

A summary table of relevant gift and estate figures as adjusted for tax year 2017 is provided immediately below. Previous years are added for context.

Adjustment	2015	2016	**2017**
Basic exclusion amount and GST exemption amount	$5,430,000	$5,450,000	**$5,490,000**

Gift tax annual exclusion	$14,000	$14,000	**$14,000**
Annual exclusion for gifts made to spouse who is not a U.S. citizen	$147,000	$148,000	**$149,000**
Information reporting on large gifts received from foreign persons	$15,601	$15,671	**$15,797**
?2-Percent Portion? under Code § 6166	$1,470,000	$1,480,000	**$1,490,000**
Special valuation under Code § 2032A	$1,100,000	$1,110,000	**$1,120,000**

Estate and Trust Income Rates and Brackets

Estate and trust income brackets contain minor changes for tax year 2017. The tax rates for estates and trusts will not change in 2017. What will change, however, is the amount of taxable income that places an estate or trust in a particular bracket. These changes are highlighted by the table below.

Tax Year 2016	**Tax Year 2017**

If Taxable Income is:	The Tax is:	If Taxable Income is:	The Tax is:
Not over $2,550	15% of the taxable income	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 $2,550 but not over $6,000	$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 $6,000 but not over $9,150	$1,245 plus 28% of excess over $6,000
Over $9,050 but not over $12,400	$2,100.50 plus 33% of the excess over $9,050	Over $9,150 but not over $12,500	$2,127 plus 33% of the excess over $9,150

Over $12,400	$3,206 plus 39.6% of the excess over $12,400	Over $12,500	$3,232.50 plus 39.6% of the excess over $12,500

Information Reporting and Penalties

In addition to the transfer tax figures above, penalties are also adjusted for inflation. For tax year 2017, a failure to file a tax return within 60 days of the due date results in a penalty equal to the lesser of $210 or 100% of the amount required to be shown as tax on such returns.

The failure to file a correct information return generally results in a penalty of $260 per return. If that failure is due to the taxpayer?s intentional disregard, the penalty for 2017 equals the greater of (i) $530 or (ii) 10 percent of the aggregate amount of items required to be reported correctly. Recall that a Form 8971 is characterized as an information return and, as such, is subject to these penalties.

Finally, failing to furnish correct payee statements will generally result in a $260 penalty per return. If that failure is due to intentional disregard, the penalty is the same as that imposed for information returns discussed above. Remember that Schedules A to Form 8971 are payee statements.

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