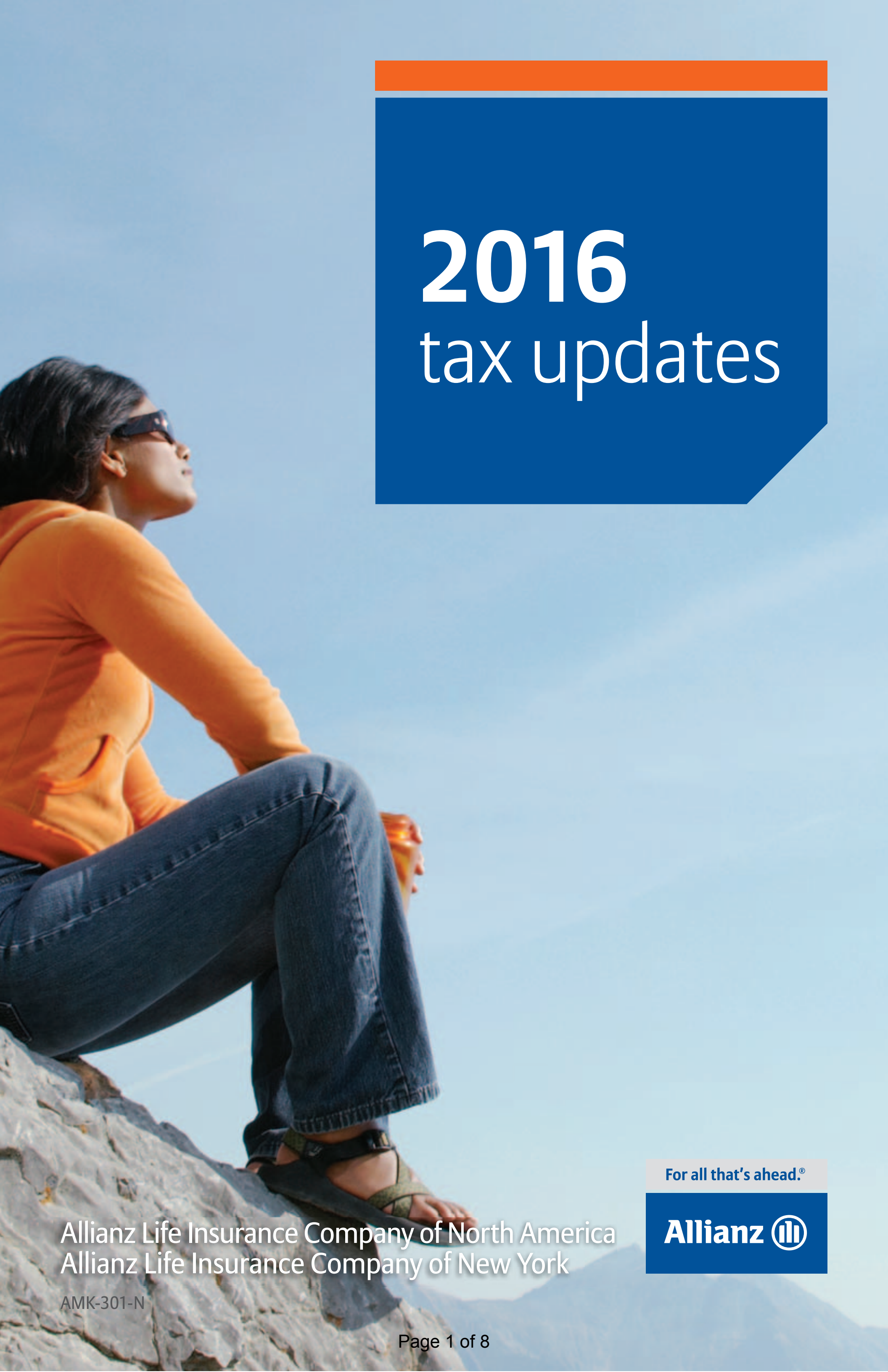

2016 tax updates

For all that's ahead.®

Allianz

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

AMK-301-N

"There is nothing permanent except change."

– Heraclitus, ancient philosopher

The federal income tax rate has been subject to change over the years. In the 1970s, the highest federal income tax rate was 70% for those individuals with high taxable income – whereas the highest income tax rate in 2016 is 39.6%. But in addition to the fluctuation of tax rates, other aspects of the federal income tax system have changed, too – including deductions, credits, and capital gains taxes.

Although tax rates may continue to shift in the future, it's important to understand how the current federal income tax works and how it might impact your retirement income or financial statement.

A. Income taxes

Income tax rates

In 2016 the federal income tax rates continue to be 10%-35%, depending on filing status and taxable income. However, income above the $415,050/$466,950 thresholds is taxed at a rate of 39.6%, which is up from the 2012 rate of 35%.

Capital gains and dividends taxes

Income tax rates on long-term capital gains and qualified dividends remain at 0% for taxpayers whose other ordinary income is taxed at 10% or 15%. The long-term capital gains tax rates also remain at 15% for those with ordinary income taxed at 25% or greater if their income is under $415,050 if single or $466,950 if married, filing jointly.

Though many individuals are not impacted by the changes from the 2012 rate, high-income taxpayers may continue to experience HIGHER TAXES AND **MORE COMPLEXITY.**

For single filers whose taxable income exceeds $415,050 – or for those who are married, filing jointly, and their taxable income exceeds $466,950 – the tax rates on long-term capital gains and qualified dividends increase to 20%.

Personal exemptions, itemized deductions, and phase-outs

For individuals with taxable income above a certain threshold, their personal exemptions and itemized deductions may be phased out. For 2016, those thresholds are $259,400 for single, $311,300 married, filing jointly, $285,350 head of household, and $155,650 married, filing separately.

Alternative Minimum Tax

Originally created to ensure the wealthy couldn't avoid significant amounts of taxes by using certain deductions, exemptions, losses, and credits, the Alternative Minimum Tax (AMT) had increasingly become a burden on the middle class. The American Taxpayer Relief Act of 2012 permanently increased the AMT exemption amounts and automatically indexed them for inflation.

The AMT exemption amounts and phase-out ranges for 2016 are:

THE **AMT** CAN BE AFFECTED BY YOUR FILING STATUS.

FILING STATUS	Exemption amount	Phase-out range
Single or HOH	$53,900	$119,700 - $335,300
Married, filing jointly	$83,800	$159,700 - $494,900
Married, filing separately	$41,900	$79,850 - $247,450

Retirement plan contributions

The rules allowing tax advantages for contributions to section 401(k) plans and IRAs have not changed. The limit on elective deferrals to a 401(k) plan is $18,000 ($24,000 if age 50 or older) for 2016. Contributions to an IRA (traditional or Roth) are unchanged for 2016 and are capped at $5,500 ($6,500 if age 50 or older).

B. Social Security and Medicare taxes

Social Security

While you are working, you contribute to the Social Security and Medicare systems through payroll taxes. In 2016, employees contribute 6.2% on wages up to $118,500 and 1.45% (the Medicare portion) on all wages – employers match those amounts (the self-employed pay both halves).

Once receiving Social Security retirement benefits, you might be subject to income taxes on the Social Security benefits if your "combined income" exceeds certain thresholds. However, no more than 85% of the Social Security benefits you receive would be included in taxable income.

YOUR SOCIAL SECURITY **MAY BE SUBJECT TO INCOME TAXES** IN CERTAIN CASES.

Retirement income causing benefits to be taxed

Single or head of household	up to 50% taxable with $25,000 combined income
	up to 85% taxable with $34,000 combined income
Married, filing jointly	up to 50% taxable with $32,000 combined income
	up to 85% taxable with $44,000 combined income

Percentages are the amount of Social Security benefit included in income, not the tax rate on the Social Security benefit.

ADJUSTED GROSS INCOME

\+ nontaxable interest

\+ one-half of Social Security benefits

= **Combined Income**

Medicare

These **MEDICARE TAXES** ARE DESIGNED to target taxpayers with either high investment income, high salaries (earned income), or both.

A 3.8% Medicare surtax applies to the net investment income of taxpayers with modified adjusted gross income that exceeds $200,000 for single taxpayers, $250,000 for married couples, filing jointly, $125,000 for married, filing separately, or $12,400 (in 2016) for trusts and estates.

In addition, a 0.9% Medicare payroll tax also applies to taxpayers with earned income exceeding $200,000 for single taxpayers, $125,000 for married, filing separately, or $250,000 for married couples, filing jointly. The employer will be required to withhold the additional 0.9% once an employee's earned income with that employer exceeds $200,000 for the calendar year. Note that for a married couple, the withholding may be less than the tax.

C. Estate and gift taxes

Estate taxes

For individuals who die in 2016, the first $5,450,000 of value in an estate is exempt from the federal estate tax ($5,430,000 if death occurred in 2015). Estates are taxed at a maximum rate of 40%.

In addition, portability between married couples still applies if elected. Portability means the executor of the estate of the first spouse to die can transfer the deceased spouse's unused estate tax exemption to the surviving spouse.

THE 2016 **FEDERAL ESTATE TAX EXEMPTION** and "portability" should result in fewer married couples paying a federal estate tax, unless their total net worth is $10.9 million or greater.

Gift taxes

In 2016 the federal annual gift tax exclusion remains at $14,000 for gifts ($28,000 if both spouses consent to the gift – see IRS Form 709).

Call your tax and financial professionals to discuss your situation in more detail, and to learn how the 2016 income tax and other tax changes could affect your retirement strategies.

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so you can be true to yours.®

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(R-12/2015)