KATZ BASKIES & WOLF PLLC

Trusts & Estates, Tax & Business Law

GENERAL NEWS

Congress Extends Tax Provisions for 2014

On December 16, 2014, Congress passed the "Tax Increase Prevention Act of 2014," ("TIPA"), which the President is expected to sign. TIPA extends a host of tax provisions some of which impact individual taxpayers, including: above-the-line deductions for higher education expenses and educators' expenses, deductions for state and local sales tax and mortgage insurance premiums, excluding discharged home mortgage debt from income, and the allowance of tax-free charitable transfers from a taxpayer's IRA (often called "charitable IRA rollovers"). In addition, there are many business tax provisions in TIPA which impact depreciation, expensing, special S-corporation basis adjustment issues and other corporate tax matters. Finally, Congress also passed the "Achieving a Better Life Experience Act of 2014" ("ABLE"), which provides for special ABLE accounts for disabled beneficiaries.

This client update will focus on the individual tax extenders in TIPA.

1. Above-the-Line Deduction for Educator Expenses Extended. Eligible elementary and secondary school teachers may claim an above-the-line deduction for up to $250 per year of expenses paid or incurred for books, certain supplies, computer and other equipment, and supplementary materials used in the classroom. Under pre- TIPA law, the educator expense deduction didn't apply for expenses paid or incurred in tax years after 2013. *New law*: TIPA retroactively extends the educator expense deduction one year so that it applies to expenses paid or incurred in tax years through 2014. (Code Sec. 62(a)(2)(D), as amended by TIPA Sec. 101(a)).

2. Exclusion for Discharged Home Mortgage Debt Extended. Discharge of indebtedness income from qualified principal residence debt, up to a $2 million limit ($1 million for married individuals filing separately) is excluded from gross income. Under pre- TIPA law, this exclusion didn't apply to any debt discharged after Dec. 31, 2013. *New law*: TIPA extends this exclusion for one year so that it applies to home mortgage debt discharged before Jan. 1, 2015. (Code Sec. 108(a)(1)(E), as amended by TIPA Sec. 102(a)).

3. Increase in Excludible Employer-Provided Mass Transit and Parking Benefits Extended. Under pre- TIPA law, for 2014, an employee may exclude from gross income up to: (1) $250 per month for qualified parking, and (2) $130 a month for transit passes and commuter transportation in a commuter highway vehicle (including van pools). However, notwithstanding the applicable statutory limits on the exclusion of qualified transportation fringes (as adjusted for inflation), for any month beginning before Jan. 1, 2014, a parity provision required that the monthly dollar limitation for transit passes and transportation in a commuter highway vehicle had to be applied as if it were the same as the dollar limitation for that month for employer-provided parking ($245 for 2013). *New law*: TIPA extends for one year the parity provision, through 2014. Thus, for 2014, it increases the monthly exclusion for employer-provided transit and vanpool benefits to $250—the same as for the exclusion for employer-provided parking benefits. (Code Sec. 132(f)(2), as amended by TIPA Sec. 103(a)).

4. Mortgage Insurance Premiums as Deductible Qualified Residence Interest Extended. Mortgage insurance premiums paid or accrued by a taxpayer in connection with acquisition indebtedness with respect to the taxpayer's qualified residence are treated as deductible qualified residence interest, subject to a phase-out based on the taxpayer's adjusted gross income (AGI). The amount allowable as a deduction is phased out ratably by 10% for each $1,000 by which the taxpayer's adjusted gross income exceeds $100,000 ($500 and $50,000, respectively, in the case of a married individual filing a separate return). Thus, the deduction isn't allowed if the taxpayer's AGI exceeds $110,000 ($55,000 in the case of married individual filing a separate return). Under pre- TIPA law, this provision only applied to premiums paid or accrued before Jan. 1, 2014 (and not properly allocable to any period after that date). *New law*: TIPA retroactively extends this provision for one year so that a taxpayer can deduct, as qualified residence interest, mortgage insurance premiums paid or accrued before Jan. 1, 2015 (and not properly allocable to any period after 2014). (Code Sec. 163(h)(3)(E), as amended by TIPA Sec. 104(a)).

5. State and Local Sales Tax Deduction Extended. Taxpayers who itemize deductions may elect to deduct state and local general sales and use taxes instead of state and local income taxes. *Note*: Obviously this extender is an important benefit for clients in states without income taxes - like Florida. Under pre- TIPA law, this choice was unavailable for tax years beginning after Dec. 31, 2013. *New law*: TIPA retroactively extends this provision for one year so that itemizers can elect to deduct state and local sales and use taxes instead of state and local income taxes for tax years beginning before Jan. 1, 2015. (Code Sec. 164(b)(5)(I), as amended by TIPA Sec. 105(a)).

6. Liberalized Rules for Qualified Conservation Contributions Extended. A taxpayer's aggregate qualified conservation contributions (i.e., contributions of appreciated real property for conservation purposes) are allowed up to the excess of 50% of the taxpayer's contribution base over the amount of all other allowable charitable contributions (100% for qualified farmers and ranchers), with a 15-year carryover of such contributions in excess of the applicable limitation. Under pre-TIPA law, these rules didn't apply to any contribution made in a tax year beginning after Dec. 31, 2013, and contributions made thereafter were to be subject to the otherwise applicable 30% limit for capital gain property (50% limit for qualified farmers and ranchers). *New law*: TIPA retroactively extends for one year the 50% and 100% limitations on qualified conservation contributions of appreciated real property so that they apply to contributions made in tax years beginning before Jan. 1, 2015. (Code Sec. 170(b)(1)(E) and Code Sec. 170(b)(2)(B) , as amended by TIPA Sec. 106(a) and 106(b)).

7. Above-the-Line Deduction for Higher Education Expenses Extended. Eligible individuals can deduct higher education expenses—i.e., "qualified tuition and related expenses" of the taxpayer, his spouse, or dependents—as an adjustment to gross income to arrive at adjusted gross income. The maximum deduction is $4,000 for an individual whose AGI for the tax year doesn't exceed $65,000 ($130,000 in the case of a joint return), or $2,000 for individuals who don't meet the above AGI limit, but whose adjusted gross income doesn't exceed $80,000 ($160,000 in the case of a joint return). No deduction is allowed for an individual whose adjusted gross income exceeds the relevant adjusted gross income limitations, for a married individual who does not file a joint return, or for an individual for whom a personal exemption deduction may be claimed by another taxpayer for the tax year. Under pre-TIPA law, this deduction wasn't available for tax years beginning after Dec. 31, 2013. *New law*: TIPA retroactively extends the qualified tuition deduction for one year so that it can be claimed for tax years beginning before Jan. 1, 2015. (Code Sec. 222(e), as amended by TIPA Sec. 107(a)).

8. Nontaxable IRA Transfers to Eligible Charities Extended. Taxpayers who are age 70 1/2 or older can make tax-free distributions to a charity from an Individual Retirement Account (IRA) of up to $100,000 per year. These distributions aren't subject to the charitable contribution percentage limits since they are neither included in gross income nor claimed as a deduction on the taxpayer's return. Under pre-TIPA law, these rules didn't apply to distributions made in tax years beginning after Dec. 31, 2013. *New law*: TIPA retroactively extends this provision for one year so that it's available for charitable IRA transfers made in tax years beginning before Jan. 1, 2015. (Code Sec. 408(d)(8)(F), as amended by TIPA Sec. 108(a)). Taxpayers who haven't yet taken their required minimum distribution (RMD) for 2014 still have time to make the most of this retroactively extended tax break. If any amount distributed directly from a taxpayer's IRA to an eligible charity (generally a public charity – including a donor advised fund at a community foundation – but not most private foundations) during 2014 at least equals the amount of his RMD for the tax year, the taxpayer will not be required to take any other 2014 distribution from the IRA.

(561) 910-5700
KATZ BASKIES WOLF PLLC © 2016. Privacy Policy | Disclaimer