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TIPA EXTENDS TAX RELIEF FOR INDIVIDUALS AND BUSINESSES — BUT ONLY THROUGH DEC. 31

On Dec. 19, the President signed the Tax Increase Prevention Act into law. The act extends more than 50 tax breaks — but only through Dec. 31, 2014. These extensions will provide individuals and businesses with valuable tax relief on their 2014 returns. The relief is retroactive and will even benefit taxpayers who acted before the law was passed. But in cases where prior action hasn't been taken, quick action taken during the two weeks between Senate passage of the act and Jan. 1, 2015 — such as a direct transfer of IRA funds to a charity or a purchase of a car to achieve a higher sales tax deduction — can allow taxpayers to benefit from the extended breaks.

Here's an overview of extended breaks that will benefit many individuals and businesses.

BREAKS FOR INDIVIDUALS

Direct IRA distributions to charity. Taxpayers who are age 70½ or older can make direct contributions up to $100,000 from their IRA to qualified charitable organizations in 2014 without incurring any income tax on the distribution. Such contributions even can be used to satisfy a required minimum distribution. And, they aren't subject to the charitable contribution percentage of adjusted gross income (AGI) limits because they are neither included in gross income nor claimed as a deduction on the taxpayer's return.

Home mortgage debt forgiveness exclusion. Discharge of indebtedness income from qualified principal residence debt, up to a $2 million limit ($1 million for married taxpayers filing separately), may be excluded from gross income. This exclusion now applies to home mortgage debt discharged before Jan. 1, 2015.

State and local sales taxes deduction. Taxpayers can take an itemized deduction for state and local sales taxes instead of for state and local income taxes. This option can be valuable for taxpayers who live in states with no or low income tax rates or who purchase major items, such as a car or boat.

QSB stock gains exclusion. Gains realized on the sale or exchange of qualified small business (QSB) stock acquired after Sept. 27, 2010, and before Jan. 1, 2015 (rather than Jan. 1, 2014), will be eligible for an exclusion of 100% if the QSB stock has been held for at least five years. A qualified small business is a domestic C corporation that holds gross assets of no more than $50 million at any time (including when the stock is issued) and uses at least 80% of its assets in an active trade or business.

The QSB stock gain exclusion has been especially valuable ever since the capital gains tax rate increased for high-income taxpayers. And the excluded gain is also exempt from the 3.8% net investment income tax.

Tuition and fees deduction. Eligible taxpayers can deduct qualified tuition and related expenses paid on behalf of themselves, as well as their spouse and dependents. The deduction is allowed only to the extent the qualified tuition and related expenses are for enrollment at a higher education institution before 2015, except that the deduction is allowed for expenses paid before 2015 if the expenses were in connection with an academic term beginning before 2015 or during the first three months of 2015.

Taxpayers ineligible for the deduction include those:

- Whose AGI exceeds certain limits,
- Who are married but filing separately, or
- Who are claimed as a personal exemption by another taxpayer for the tax year.

The tuition and fees deduction may be most beneficial to taxpayers who are ineligible for education-related tax *credits*, because the credits typically will provide greater tax savings and a taxpayer can't take both the deduction and any education credits.

Educator expenses deduction. Eligible elementary and secondary school teachers can claim an above-the-line deduction for up to $250 per year for expenses paid or incurred in 2014 for books, certain supplies, computer and other equipment, and supplementary materials used in the classroom.

Energy-efficiency tax credits. Two noteworthy credits have been extended:

1. **The Sec. 45L energy-efficient *new home* credit.** An eligible contractor can claim a credit for each qualified new energy-efficient home that the contractor constructed and which was acquired by a person from the contractor for use as a residence during 2014. The credit equals either $1,000 or $2,000 per unit depending on the projected level of fuel consumption.

2. **The Sec. 25C energy-efficient *home-improvement* credit.** It can be taken for the sum of a) 10% of the cost of qualified energy-efficiency improvements and b) residential energy property expenditures. There is a lifetime credit limit of $500 ($200 for windows and skylights).

TIPA doesn't, however, extend the tax credit for energy-efficient appliances (Sec. 45M).

BREAKS FOR BUSINESSES

50% bonus depreciation. This additional first-year depreciation allows businesses to recover the costs of depreciable property more quickly for qualified assets. Qualified assets include new tangible property with a recovery period of 20 years or less (such as office furniture and equipment), off-the-shelf computer software, water utility property and qualified leasehold-improvement property. The bonus depreciation extension generally applies only to property placed in service before 2015. But bear in mind that, if you qualify for Section 179 expensing, it could provide a greater tax benefit.

In addition, TIPA extends for one year the election to increase the Alternative Minimum Tax limitation in lieu of bonus depreciation so that the election applies to property placed in service before Jan. 1, 2015 (Jan. 1, 2016, in the case of certain longer-lived and transportation property).

Sec. 179 expensing election. TIPA extends higher limits under Sec. 179 of the Internal Revenue Code. Sec. 179 permits businesses to immediately deduct — or "expense" — the cost of qualified assets (such as tangible personal property and off-the-shelf computer software) that are purchased for use in a trade or business, in the year they're placed in service, instead of recovering the costs more slowly through depreciation deductions.

Because of the extension, a business can deduct up to $500,000 in qualified new or used assets. The deduction is subject to a dollar-for-dollar phaseout once the cost of all qualifying property placed in service during the tax year exceeds $2 million, meaning smaller businesses generally reap the greatest benefit. The expensing election can be claimed only to offset net income, not to reduce net income below zero.

Without the extension, the limit for 2014 would have dropped to $25,000, with a $200,000 phaseout threshold. Now that drop takes place on Jan. 1, 2015.

If a business is eligible for full Sec. 179 expensing, it might obtain a greater benefit from the expensing election than from bonus depreciation, because the expensing can enable the business to deduct 100% of an asset acquisition's cost. Moreover, Sec. 179 expensing is available for both new and used property. Bonus depreciation, however, could benefit more taxpayers than Sec. 179 expensing, because it isn't subject to any asset purchase limit or net income requirement. State tax consequences should also be considered.

Depreciation-related breaks for qualified leasehold-improvement, restaurant and retail-improvement property. TIPA extends the ability to:

- Apply up to $250,000 of the $500,000 Sec. 179 expensing limit to such property, and
- Apply a shortened recovery period of 15 years — rather than 39 years — to such property.

Educator expenses deduction. Eligible elementary and secondary school teachers can claim an above-the-line deduction for up to $250 per year for expenses paid or incurred in 2014 for books, certain supplies, computer and other equipment, and supplementary materials used in the classroom.

Research credit. This credit (also commonly referred to as the "research and development" or "research and experimentation" credit) can benefit businesses that increase their investments in research. The credit, generally equal to a portion of qualified research expenses, is complicated to calculate, but the tax savings can be substantial.

Work opportunity credit. This credit is available for hiring from certain disadvantaged groups, such as food stamp recipients, ex-felons and veterans who've been unemployed for four weeks or more. The credit for these groups generally equals 40% of the first $6,000 of wages, for a maximum credit of $2,400 per qualifying employee. But larger credits — with maximums ranging from $4,800 to $9,600 — are available for hiring disabled veterans and veterans who've been unemployed for six months or more.

Transit benefit parity. TIPA extends the provision that established equal limits for the amounts that can be excluded from an employee's wages for income and payroll tax purposes for parking fringe benefits and van-pooling / mass transit benefits. The limits for both types of benefits are now $250 per month for 2014. Without the extension of parity, the 2014 limit for van-pooling / mass transit would have been only $130.

TALK TO YOUR TAX ADVISOR

As noted, because these breaks generally are extended only through the end of 2014, if necessary action hasn't been taken by Dec. 31, 2014, taxpayers might not be able to reap a benefit. Businesses that have already filed returns for a fiscal year that includes part of 2014 should ask their tax advisor about filing an amended return to claim a refund for the amount of any additional tax paid because of not claiming amounts now eligible for more favorable treatment because of TIPA.

Also, these are only some of the tax breaks that were extended by TIPA. Others include charitable deductions for certain contributions made by businesses, the new markets tax credit, and much more that there wasn't room to cover here. Finally, many breaks are subject to additional rules and limitations. So contact your tax advisor to determine exactly how you can make the most of this tax relief.

ABLE Act offers tax-advantaged savings opportunities for people with disabilities

Passed alongside the Tax Increase Prevention Act of 2014 was the Achieving a Better Life Experience (ABLE) Act of 2014. It offers a new type of tax-advantaged savings program for people with disabilities.

The ABLE Act allows each state to establish a tax-exempt ABLE program to help people with disabilities build accounts to help pay qualified disability expenses. For federal purposes, tax treatment of these accounts will be similar to that of a Section 529 college savings plan in that:

- Anyone can make contributions to ABLE accounts, but the contributions won't be tax deductible.
- Income earned by the accounts generally won't be taxed.
- Distributions, including portions attributable to investment earnings generated by the account, to an eligible individual for qualified expenses also won't be taxable.

Qualified expenses are those related to the individual's disability, such as health, education, housing, transportation, employment training, assistive technology, personal support and related services and expenses.

For more information on ABLE accounts, contact your tax and legal advisors.

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