December 31, 2014 – 2014 Tax Prevention Act

After much anticipation, Congress has passed the Tax Increase Prevention Act of 2014 (2014 Tax Prevention Act) to extend popular individual and business tax provisions retroactively for one year (through 2014). This one-year retroactive extension allows you to claim many popular tax incentives that expired on December 31, 2013 on your 2014 tax return. These include, but are not limited to:

- The deduction of mortgage insurance premiums as qualified residence interest
- The deduction of state and local general sales taxes in lieu of state and local income taxes
- The above-the-line deduction for qualified tuition and related expenses
- The above-the-line deduction for certain out-of-pocket classroom expenses
- The exclusion from gross income for qualified charitable distributions from IRAs;
- The exclusion from gross income applicable for qualified principal residence indebtedness
- Transit benefits parity for employer-provided mass transit and parking benefits;
- The special rule for contributions of capital gain real property made for conservation purposes
- The credit for non-business energy property
- The credit for alternative fuel vehicle refueling property

The legislation also includes the Achieving a Better Life Experience (ABLE) Act, which creates tax-favored savings accounts for individuals with disabilities along with some tax-related offsets.

MORTGAGE INSURANCE PREMIUMS

Homebuyers who lack sufficient funds to make a full down payment on a home may be required to purchase or obtain mortgage premium insurance, which guarantees repayment of the acquisition loan in the case of the death or disability of the mortgagor. This provision treats mortgage insurance premiums as deductible interest that is qualified residence interest (subject to AGI phaseout). Your principal residence and one other property that you use for personal purposes may qualify for this deduction.

The mortgage insurance premium deduction applies to amounts paid or accrued pursuant to mortgage insurance contracts that were issued on or after January 1, 2007. To be deductible, your mortgage insurance premiums must be paid or accrued through December 31, 2014 and not properly allocable to a period after 2014.

STATE AND LOCAL SALES TAXES

Since the 2004 tax year, there has been an option to deduct state and local general sales taxes instead of state and local income taxes. Many individuals benefit by doing comparison calculations to determine whether the sales tax or income tax deduction provides the lowest tax liability. If you make a big ticket purchase such as a car before year end, you may be able to increase your deductions and qualify to itemize your deductions by claiming the sales tax instead of the income tax deduction.

QUALIFIED TUITION AND RELATED EXPENSES

Qualified tuition and related expenses are tuition and fees required for your enrollment or attendance at an eligible educational institution for courses of instruction. Any accredited public, nonprofit, or proprietary post-secondary institution is generally an eligible educational institution. The deduction for qualified tuition and related expenses, often referred to as the higher education deduction, is also available for your spouse or anyone you can claim as a dependent.

The maximum deduction is $4,000 for taxpayers with adjusted gross income (AGI) not exceeding $65,000 ($130,000 for married joint filers); $2,000 for AGI from $65,000 to $80,000 ($130,000 to $160,000 for joint filers), and $0 for other taxpayers. Expenses paid this year for an academic term starting on or before March 31 of 2015 qualify for the higher education deduction in 2014.

TEACHERS' CLASSROOM EXPENSES

If you are a primary or secondary education professional, you are permitted an above-the-line deduction of up to $250 per year for unreimbursed teachers' classroom expenses, which include books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services), other equipment, and supplementary materials used in your classroom. If you are married and file a joint return, you are entitled to an additional deduction of $250 for your teacher/spouse who incurs classroom expenses. If your expenses exceed the $250 per teacher limit, or are non-classroom supplies, they may be deductible as employment-related miscellaneous itemized deductions (subject to a two-percent of AGI floor).

CHARITABLE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS

Generally, distributions from your individual retirement accounts (IRAs) are taxable, unless they represent a return of nondeductible contributions or are rolled over into another qualified retirement plan or IRA. However, distributions from Roth IRAs are excludible from gross income if they meet a five-year holding period, are made after you reach age 59-1/2, or meet one of the exceptions.

You must begin taking required minimum distributions (RMDs) from your traditional IRA by April 1st of the calendar year following the year in which you attain age 70-1/2. If your IRA trustee makes a distribution from your IRA directly to a charitable organization on or after you attain age 70-1/2, the distribution, referred to as a "qualified charitable distribution," is excluded from gross income. A qualified charitable distribution (QCD) also counts towards satisfying your RMD from a traditional IRA.

The total amount of QCDs from all of your IRAs cannot exceed $100,000 for the year ($200,000 for married joint filers). The QCDs cannot be claimed as itemized deductions, but the tax-free treatment reduces your AGI, which in turn lowers the floor for deducting medical expenses and miscellaneous deductions.

MORTGAGE DEBT FORGIVENESS

If a creditor discharges your all or a portion of your debt, you generally must recognize cancellation-of-debt (COD) income. When the discharge of indebtedness is due to a foreclosure on your residence, it is generally treated as a sale or exchange from which you may realize a gain or loss.

Since 2007, an exclusion from income for the discharge of qualified principal residence indebtedness has been in effect. This exclusion for mortgage debt forgiveness is limited to $2 million ($1 million for married taxpayers filing separately). The debt must be incurred for the acquisition, construction, or substantial improvement of your principal residence, and must be secured by the residence. Refinancing of qualifying indebtedness is allowed to the extent that the refinancing doesn't exceed the amount of the refinanced debt.

PARITY FOR MASS TRANSIT AND PARKING BENEFITS

As you know, the costs of commuting to and from work are not deductible as a business expense because they are considered personal expenses. However, your employer may provide transportation fringe benefits to you in addition to your compensation. If so, these benefits are excluded from your income for income tax purposes, and from your wages for payroll tax purposes.

Qualified transportation fringe benefits include van pooling, transit passes, qualified parking and qualified bicycle commuting reimbursements. Generally, the excludible amount for van pooling and transit passes is less than the excludible amount for parking. Under the extended parity provision, for any month beginning on or after February 17, 2009 and before January 1, 2015, the monthly exclusion for transit passes and van pool benefits is increased to match the exclusion amount for parking (in 2014, the monthly amount is $250).

QUALIFIED CONSERVATION CONTRIBUTIONS

The Tax Code contains several rules to encourage the donation of appreciated capital gain real property to qualified charities for conservation purposes that are protected in perpetuity. For "qualified conservation contributions" made in the 2006 through 2014 tax years, the deduction percentage limits are significantly raised and enhanced carryforward rules apply.

As a result, if you make a qualified conservation contribution, your deduction is increased to 50 percent of your contribution base, and the contribution may be carried forward up to 15 succeeding tax years.

CREDIT FOR NONBUSINESS ENERGY PROPERTY

You may claim the credit for nonbusiness energy property (CNEP) if you make qualified energy efficiency improvements (doors, windows, insulation, and certain roofs) or residential energy property expenditures (certain heat pumps and fans, furnaces, central air conditioners, and water heaters) for your principal residence. For 2014, the CNEP is equal to 10 percent of these improvements and expenditures. The maximum CNEP is equal to the excess of $500 over the aggregate credits previously allowed since 2006.

ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT

The alternative vehicle refueling property credit (AFVRPC) is available for the installation of alternative fuel (clean-fuel) vehicle property used in a trade or business, or installed at a personal residence. The AFVRPC applies to clean-fuel vehicle property placed in service in the 2006 through 2014 tax years. The fuels to be stored or dispensed must meet specific requirements for their makeup and be used predominantly in the United States.

For individuals, the AFVRPC is limited to 30 percent of the cost of qualified alternative fuel vehicle refueling property, up to $1,000 per year.

TAX-FAVORED SAVINGS ACCOUNTS FOR DISABLED INDIVIDUALS

Under the Achieving a Better Life Experience (ABLE) Act, beginning in 2015 you may set up a tax-favored savings account for a family member with disabilities. The ABLE Act authorizes states to create an ABLE Program (similar to Code Sec. 529 college savings programs).

Each disabled individual is limited to one ABLE account, and the total of all contributions by all individuals to the account is limited to the annual gift tax exclusion amount ($14,000 in 2015). Qualified distributions from the ABLE account include amounts used to cover medical expenses as well as costs of education, transportation and housing. Nonqualified distributions are subject to income tax and a 10 percent penalty.

BUSINESS PROVISIONS

In addition to the above changes for individuals, the following provisions apply to businesses:

- Enhanced IRC §179 with a limit of $500,000
- 50% bonus depreciation (includes $8,000 boost to first-year depreciation on qualifying vehicles)
- 15-year depreciation on qualified leasehold and retail improvements and restaurant property
- 7-year depreciation for motorsport racetrack facilities
- 5-year period for built-in gains tax
- Exclusion of 100% of gain on sale of small business stock
- Expensing election for costs of film and television production
- Classification of certain race horses as three-year property
- Accelerated depreciation for business property on an Indian reservation
- Research Tax Credit
- Work Opportunity Tax Credit
- Enhanced charitable deduction for contributions of food inventory

The 2014 Tax Prevention Act is significant because it impacts all taxpayers, including you. As the year draws to a close, it is important to discuss the impact of this legislation on your 2014 tax liability. Please call our office to discuss tax planning opportunities that may be available to you.