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CERTIFIED PUBLIC ACCOUNTANTS

April 22, 2015 – Important 2015 First Quarter Federal Tax Developments

During the first quarter of 2015, there were many important federal tax developments. Here we highlight some of the more significant developments for you. As always, contact our office if you have any questions.

Tax reform/legislation

President Obama made a host of tax reform proposals in his fiscal year (FY) 2016 budget. The President proposed increasing the top long-term capital gains and qualified dividends tax rate from 20 percent to 24.2 percent for tax years beginning after December 31, 2015. The President called for tripling the maximum child and dependent care credit for families with children under age five and proposed a new "second earner" tax credit of up to $500 for qualified couples where both spouses work.

In Congress, Republicans and Democrats debated different approaches to tax reform. The House approved its FY 2016 budget framework on March 25. The Senate followed on March 27. The House budget calls for elimination of the alternative minimum tax (AMT), along with reduced individual and corporate taxes. The Senate budget includes language enhancing Code Sec. 179 small business expensing, eliminating the federal estate tax, expanding education tax incentives, and calling for a reduction in the corporate tax rate. The House and Senate now need to reconcile their budget resolutions, which they are expected to do in April. Democrats generally echoed the President's proposals to enhance tax incentives for lower and middle income taxpayers.

In February, the House approved legislation (HR 529) to expand the Code Sec. 529 college savings plans. The bill would allow the purchase of a computer to be considered a qualified expense, remove distribution aggregation requirements and allow a student who receives a refund of any 529 qualified expenses to redeposit those funds without penalty. The House also passed the America's Small Business Tax Relief Act of 2015 (HR 636). The bill provides for a $500,000 dollar limit and a $2 million investment limit for Code Sec. 179 expensing, adjusted for inflation after 2015.

The Senate Finance Committee (SFC) announced the creation of working groups to develop tax reform proposals. The groups are expected to make their reports in May. The leaders of the SFC and the House Ways and Means Committee have indicated they are holding regular discussions about tax reform.

Taxpayer services/enforcement

At the start of the filing season, IRS Commissioner John Koskinen cautioned taxpayers to expect reduced services because of cuts to the agency's budget. The IRS's budget cuts will impact the enforcement of the nation's tax laws, Koskinen predicted, which could see a $2 billion drop in revenues.

Affordable Care Act

The controversy over the scope of the Code Sec. 36B premium assistance tax credit regulations made its way to the U.S. Supreme Court on March 4. The challengers argued that the IRS erred in extending the credit to enrollees in federally facilitated Marketplaces. The government defended the regulations as a valid interpretation of the Affordable Care Act. A decision is expected in late June. *King v. Burwell, 2014-2USTC 50,367.*

The IRS announced at the start of the filing season that it would provide help to taxpayers with questions about taxes and the *Patient Protection and Affordable Care Act.* The Affordable Care Act generally requires individuals to carry minimum essential health coverage or make a shared responsibility payment, unless exempt. During the filing season, the IRS posted information on its website and issued a number of Fact Sheets about the Affordable Care Act.

The IRS also announced penalty relief for taxpayers who, after reconciling advance payments of the Code Sec. 36B premium assistance tax credit, discover they have a balance due. The penalty relief is only available for the 2014 tax year.

In January, the IRS issued final regulations for nonprofit hospitals to remain in compliance with the Affordable Care Act. Nonprofit hospitals must meet new financial assistance rules, follow reasonable billing and collection policies, and make their community health needs assessments.

In February, the IRS announced transition relief for small employers from the Code Sec. 4980D excise tax for certain health care payment plans. The IRS also reported that it is exploring additional guidance on the application of market reforms under the Affordable Care Act (PPACA) to a two-percent shareholder-employee healthcare arrangement.

The IRS, along with the U.S. Departments of Health and Human Services (HHS) and Labor, released final regulations on wraparound coverage. This is coverage designed to wrap around, for example, employer-sponsored health insurance coverage. Under the final regulations, wraparound coverage is permitted for a limited time.

The IRS previewed possible approaches to the Code Sec. 4980I excise tax under the Affordable Care Act (also known as the "Cadillac plan" tax). The IRS asked taxpayers to submit suggestions on, among other topics, the determination of the cost of applicable coverage; and the treatment of individuals engaged in high-risk occupations.

Accounting method changes

The IRS updated and made some changes to the general Code Sec. 446(e) procedures to obtain advance and automatic consent to change a method of accounting for federal income tax purposes. The guidance clarifies rules in several dozen areas.

Repair regulations

In February, the IRS announced simplifications for small businesses to adopt the "repair regs" for 2014. Small businesses can change their accounting methods automatically, without filing Form 3115 and without having to apply Code Sec. 481 the IRS explained. The relief is available for the 2014 tax return that taxpayers will be filling out this tax season.

Vehicle depreciation

The IRS issued 2015 inflation-adjusted vehicle depreciation dollar limits in February. The IRS also modified the 2014 limitations to reflect passage of the *Tax Increase Prevention Act of 2014* in December 2014.

Section 199 deduction

In March, the IRS instructed its examiners about the Code Sec. 199 domestic production activities deduction. The IRS described some activities that would not qualify for the deduction.

Form 1095-A

Treasury announced relief for taxpayers who received incorrect Forms 1095-A, Health Insurance Marketplace Statement. Affected taxpayers will not need to refund any overpayment resulting from information on an incorrect Form 1095-A. The IRS will not pursue the collection of any additional taxes from these individuals based on updated information in the corrected forms, Treasury explained. The IRS also provided penalty relief to farmers/fishermen with incorrect Forms 1095-A.

ABLE Accounts

In March, the IRS announced that it will provide transition relief for Achieving a Better Life Experience (ABLE) accounts. ABLE accounts are tax-favored accounts maintained for beneficiaries who have physical and other challenges.

Transit benefits

The *Tax Increase Prevention Act of 2014* extended transit benefits parity through 2014. In January, the IRS issued guidance to clarify the retroactive increase in excludable transit benefits for FICA taxes and W-2 reporting. The IRS also provided employers with a special administrative procedure for certain employment tax returns and information statements.

FATCA

The IRS announced the opening of the *Foreign Account Tax Compliance Act* (FATCA) Data Exchange Service in January. Foreign financial institutions and foreign tax authorities will use the Data Exchange Service to send information reports on accounts and assets held by U.S. persons.

Research tax credit

In January, the IRS issued proposed regulations on the research tax credit with respect to computer software developed for internal use. The regulations describe internal use software, clarify what is not internal use, and allow more types of internal use software to satisfy certain tests for the research tax credit.

The IRS issued final regulations in February on the alternative simplified research credit (ASC) that affirm the ability of taxpayers to elect the ASC on an amended return under certain circumstances.

Energy

The IRS provided guidance in January on performance and quality standards for small wind energy projects to qualify for a tax credit under Code Sec. 48. Generally, the property must use a wind turbine with a nameplate capacity of no more than 100 kilowatts and meet other requirements.

If you have any questions about these or other federal tax developments, please contact our office.