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Congress Finally Passes "Tax Extender" Legislation

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With the Senate approving the House version of H.R. 5771, Congress has just extended a package of expired or expiring individual and business provisions known as "tax extenders." The bill has been sent to the President for signature, who is expected to approve the measure. The tax extenders include dozens of individual and business tax deductions and credits, many of which have been in existence for years, but, since they have a specific termination date, they were considered to be temporary in nature. Congress has repeatedly extended these tax deductions and credits on a temporary basis for one or two years at a time, which is why they are referred to as "extenders." This new legislation generally extends the tax breaks retroactively to January 1, 2014, for one year, through the end of 2014.

Following is a summary of the key tax deductions and credits that were just extended:

Individual extenders

The following are the key items extended on behalf of individual taxpayers through 2014:

- The \$250 above-the-line deduction for teachers for expenses paid or incurred for books, certain supplies/materials and equipment used in the classroom;
- The exclusion of up to \$2 million of discharged principal residence indebtedness from gross income;
- The deduction for mortgage insurance premiums;
- The option to take an itemized deduction for sales tax instead of the itemized deduction for state and local income taxes;
- The above-the-line deduction for qualified tuition and related expenses; and
- The rule that allows tax-free distributions to charity from an IRA of up to \$100,000

per year, by taxpayers age 70½ or older.

- The credit for nonbusiness energy property (i.e., energy efficient improvements), up to a maximum of \$500;
- Beginning in 2015, new tax-exempt accounts may be set up on behalf of disabled individuals. These accounts are known as "ABLE" accounts (Achieving a Better Life Experience), and will be used for helping disabled individuals save money on a tax-free or tax-deferred basis, to pay for qualified disability expenses.

Business extenders

The following are some of the business credits and rules generally extended through 2014:

- The research tax credit;
- The work opportunity tax credit;
- 15-year straight line depreciation for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements;
- 50% bonus depreciation;
- The election to accelerate alternative minimum tax (AMT) credits in lieu of taking bonus depreciation;
- The increase in expensing of up to \$500,000 for capital expenditures (subject to reduction once capital expenditures exceed \$2,000,000) and an expanded definition of property eligible for expensing, commonly referred to as Section 179.
- First year allowable depreciation for certain cars and trucks has increased by \$8,000;
- The exclusion of 100% of gain on certain small business stock;
- The reduction in S corporation recognition period for built-in gains tax;

These are just a few of the provisions contained in the legislation. There are many more not included here. If you have any questions concerning these changes or any other aspect of the new law, please contact one of the tax professionals at Zinner & Co. LLP.