Tax Increase Prevention Act of 2014

How will the Tax Increase Prevention Act of 2014 affect you and your taxes?

Congress extends tax breaks in year-end legislation - President Obama signed into law on December 19, 2014

In its final session of the year, Congress extended a long list of tax breaks that had expired, retroactive to the beginning of 2014. But the reprieve is only temporary. The extensions granted in the Tax Increase Prevention Act of 2014 remain in effect through December 31, 2014. For these tax breaks to survive beyond that point, they must be renewed by Congress in 2015, setting up another lengthy debate.

Although certain extended tax breaks are industry-specific, others will appeal to a wide cross-section of individuals and businesses. Here are some of the most popular items.

The new law retains an optional 2014 deduction for state sales taxes in lieu of deducting state and local income taxes. This is especially beneficial for residents of states with no income tax. This provision may also benefit taxpayers in any state who pay sales tax on a large ticket item such as an automobile, boat, or RV.

The maximum $500,000 Section 179 deduction for qualified business property, which had dropped to $25,000, is reinstated for 2014. The deduction is phased out above a $2 million threshold, up from $200,000. So, for 2014, taxpayers can immediately write off up to $500,000 of qualified assets. Unless further action is taken by Congress, this limit will drop back to $25,000 for 2015.

A 50% bonus depreciation for qualified business property is revived. The deduction may be claimed in conjunction with Section 179. To qualify, property must be new and placed in service during 2014. The 50% bonus depreciation will result in an additional $8,000 deduction for vehicles placed in service in 2014.

Parents may be able to claim a tuition-and-fees deduction for qualified education expenses paid in 2014. The maximum deduction is $4,000 for an individual whose adjusted gross income (AGI) does not exceed $65,000 ($130,000 for joint filers). The maximum deduction is $2,000 for an individual whose AGI doesn't exceed $80,000 ($160,000 for joint filers).

An individual age 70½ and over could transfer up to $100,000 tax-free from an IRA to a charity in 2014. The transfer would count as a required minimum distribution (RMD).

For 2014, homeowners can exclude tax on mortgage debt cancellation or forgiveness of up to $2 million. This tax break is only available for a principal residence.

The new law preserves bigger tax benefits for mass transit passes in 2014. Employees may receive up to $250 per month tax-free as opposed to only $130 per month.

A taxpayer is generally entitled to a credit of 10% of the cost of energy-saving improvements installed in the home in 2014, subject to a lifetime credit limit of $500.

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FAQ

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Educators can deduct up to $250 of their 2014 out-of-pocket expenses. This deduction is claimed "above the line" so it is available to non-itemizers. Any qualified expense above $250 may be claimed as an itemized deduction subject to a 2% of adjusted gross income (AGI) limit.

Homeowners paying mortgage insurance premiums, will be able to treat them as deductible home mortgage interest in 2014, subject to phase-out based on adjusted gross income (AGI).

The Work Opportunity Tax Credit (WOTC) is available for qualified employees hired in 2014. The credit is generally 40% of up to $6,000 of first-year wages.

Under the extenders package, taxpayers can treat 2014 qualified leasehold improvements, qualified retail improvements, and qualified restaurant property as Section 179 property subject to a first-year write-off limit of $250,000.

Improvements made to a commercial building that reduced the utility expense might qualify for a deduction of up to $1.80 per square foot.

This law also provides greater investment flexibility for Section 529 accounts used to pay for college. This change is effective for tax years beginning after December 31, 2014.

The remaining lengthy list of extenders include such tax breaks as enhanced deductions for donating land for conservation purposes and tax credits for research expenses.

Achieving a Better Life Experience (ABLE Act)

Finally, the new law includes a section that authorizes tax-favored accounts for disabled individuals who can use the money in these accounts to pay for qualified expenses.

Qualified distributions from the 529-ABLE, such as transportation and housing as well as education and medical expenses, would be tax-free. Nonqualified distributions will be subject to income tax, plus a 10% penalty.

The Achieving a Better Life Experience (ABLE) Act is designed around the tax framework of Section 529 college savings plans. The Act authorizes these accounts beginning January 1, 2015.

Since this tax bill was passed so late in the year, one must act quickly to benefit from some of the provisions since they require action before January 1, 2015. Other provisions, however, will benefit taxpayers on their 2014 tax returns. If you would like help with the specific changes that affect you, please contact us.

For more information

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