Individual Tax Breaks Retroactively Extended by the Tax Increase Prevention Act of 2014

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On Dec. 16, 2014, Congress passed the "Tax Increase Prevention Act of 2014," (TIPA, or "the Act"), which the President signed into law on Dec. 19. The extender package, H.R. 5771, consists of two Divisions-Division A (the "Tax Increase Prevention Act of 2014") and Division B (the "Achieving a Better Life Experience Act of 2014"). This list does not address the ABLE Act, which is for people who are determined to be disabled prior to age 26.

Above-the-Line Deduction for Educator Expenses Extended

Eligible elementary and secondary school teachers may claim an above-the-line deduction for up to $250 per year of expenses paid or incurred for books, certain supplies, computer and other equipment, and supplementary materials used in the classroom. TIPA retroactively extends the educator expense deduction one year so that it applies to expenses paid or incurred in tax years through 2014.

Exclusion for Discharged Home Mortgage Debt Extended

Discharge of indebtedness income from qualified principal residence debt, up to a $2 million limit ($1 million for married individuals filing separately) is excluded from gross income. TIPA extends this exclusion for one year so that it applies to home mortgage debt discharged before Jan. 1, 2015.

Increase in Excludible Employer-Provided Mass Transit and Parking Benefits Extended

Under pre-Act law, for 2014, an employee may exclude from gross income up to: (1) $250 per month for qualified parking, and (2) $130 a month for transit passes and commuter transportation in a commuter highway vehicle (including van pools). However, notwithstanding the applicable statutory limits on the exclusion of qualified transportation fringes (as adjusted for inflation), for any month beginning before Jan. 1, 2014, a parity provision required that the monthly dollar limitation for transit passes and transportation in a commuter highway vehicle had to be applied as if it were the same as the dollar limitation for that month for employer-provided parking ($245 for 2013). TIPA extends for one year the parity provision, through 2014. Thus, for 2014, it increases the monthly exclusion for employer-provided transit and vanpool benefits to $250-the same as for the exclusion for employer-provided parking benefits.

Mortgage Insurance Premiums as Deductible Qualified Residence Interest Extended

Mortgage insurance premiums paid or accrued by a taxpayer in connection with acquisition indebtedness with respect to the taxpayer's qualified residence are treated as deductible qualified residence interest, subject to a phase-out based on the taxpayer's adjusted gross income (AGI). The amount allowable as a deduction is phased out ratably by 10% for each $1,000 by which the taxpayer's adjusted gross income exceeds $100,000 ($500 and $50,000, respectively, in the case of a married individual filing a separate return). Thus, the deduction isn't allowed if the taxpayer's AGI exceeds $110,000 ($55,000 in the case of married individual filing a separate return. TIPA retroactively extends this provision for one year so that a taxpayer can deduct, as qualified residence interest, mortgage insurance premiums paid or accrued before Jan. 1, 2015 (and not properly allocable to any period after 2014).

State and Local Sales Tax Deduction Extended

Taxpayers who itemize deductions may elect to deduct state and local general sales and use taxes instead of state and local income taxes. TIPA retroactively extends this provision for one year so that itemizers can elect to deduct state and local sales and use taxes instead of state and local income taxes for tax years beginning before Jan. 1, 2015.

Liberalized Rules for Qualified Conservation Contributions Extended

A taxpayer's aggregate qualified conservation contributions (i.e., contributions of appreciated real property for conservation purposes) are allowed up to the excess of 50% of the taxpayer's contribution base over the amount of all other allowable charitable contributions (100% for qualified farmers and ranchers), with a 15-year carryover of such contributions in excess of the applicable limitation. TIPA retroactively extends for one year the 50% and 100% limitations on qualified conservation contributions of appreciated real property so that they apply to contributions made in tax years beginning before Jan. 1, 2015.

Above-the-Line Deduction for Higher Education Expenses Extended

Eligible individuals can deduct higher education expenses-i.e., "qualified tuition and related expenses" of the taxpayer, his spouse, or dependents-as an adjustment to gross income to arrive at adjusted gross income. The maximum deduction is $4,000 for an individual whose AGI for the tax year doesn't exceed $65,000 ($130,000 in the case of a joint return), or $2,000 for individuals who don't meet the above AGI limit, but whose adjusted gross income doesn't exceed $80,000 ($160,000 in the case of a joint return). No deduction is allowed for an individual whose adjusted gross income exceeds the relevant adjusted gross income limitations, for a married individual who does not file a joint return, or for an individual for whom a personal exemption deduction may be claimed by another taxpayer for the tax year. TIPA retroactively extends the qualified tuition deduction for one year so that it can be claimed for tax years beginning before Jan. 1, 2015.

Nontaxable IRA Transfers to Eligible Charities Extended

Taxpayers who are age 701/2 or older can make tax-free distributions to a charity from an Individual Retirement Account (IRA) of up to $100,000 per year. These distributions aren't subject to the charitable contribution percentage limits since they are neither included in gross income nor claimed as a deduction on the taxpayer's return. TIPA retroactively extends this provision for one year so that it's available for charitable IRA transfers made in tax years beginning before Jan. 1, 2015.

> Taxpayers who haven't yet taken their required minimum distribution (RMD) for 2014 still have time to make the most of this **retroactively extended tax break**. If any amount distributed directly from a taxpayer's IRA to an eligible charity during 2014 at least equals the amount of his RMD for the tax year, the taxpayer will not be required to take any other 2014 distribution from the IRA.

Business related Tax Extenders:

Bonus First-Year Depreciation - The law extends 50% first-year bonus depreciation for one year so that it applies to qualified property acquired and placed in service before January 1, 2015.

Section 179 Expensing - TIPA retroactively extends for one year the increased $500,000 maximum expensing amount under § 179 and the increased $2 million investment-based phase out amount. These increased amounts will apply for qualified property placed in service before January 1, 2015. For tax years beginning after 2014, the maximum expensing amount is again scheduled to drop to $25,000 and the investment-based phase out amount is scheduled to drop to $200,000. The Act also extended the classification of up to $250,000 of Qualified Leasehold Improvement property, Qualified Restaurant property, and Qualified Retail Improvement property as eligible for expensing under § 179.

Qualified Leasehold Improvements - TIPA also retroactively revives and extends through 2014 the § 168(e)(3)(E)(iv) rule treating Qualified Leasehold Improvement property as 15-year property. Thus, such property is eligible for bonus 50% first-year depreciation deduction if placed in service before January 1, 2015.

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