Tax Increase Prevention Act of 2014

Variety of expired tax provisions return for 2014, but go away again in January

In the waning days of the Congressional year, the House and Senate gave new life to more than 50 tax provisions that had expired at the end of 2013, giving them all a one-year extension through 2014. Included in this extension were popular individual tax breaks, including the ability to make charitable gifts directly from an IRA, an option to deduct state sales tax rather than income tax and an above-the-line deduction for tuition costs. The bill also created a new tax-favored savings account for those with disabilities. This last bit of tax legislation puts a bow on the tax code for the current year, while setting up another year of speculation and uncertainty in 2015.

Over 50 Expired Provisions Extended Through 2014

This bill addresses over 50 different aspects of the tax code that were originally enacted in tax acts over the years. Each of these were first passed as temporary items that then expired and were extended repeatedly over the last several years, and now are to set expire again after December 31, 2014. Both Democrats and Republicans agreed that a one-year extension wasn't ideal, but the risk of impacting the tax filing season by continuing to debate a larger bill led Congress to settle on this short-term approach.

Some of the more prominent items include:

- Individual Tax Provisions
  - The ability to make charitable gifts directly from an IRA and exclude the IRA withdrawal from income (Qualified Charitable Distributions, or QCD). There were no other changes to this rule, meaning the taxpayer must be at least 70½ years old at the time of the gift, the gift must go directly to the charity from the IRA trustee, the gift will count towards a taxpayer's Required Minimum Distribution for the year of the gift and the maximum gift per taxpayer is $100,000 per year. Taxpayers who made gifts earlier in 2014 in anticipation of this extension will be eligible for QCD treatment of those gifts as long as they followed these rules.
  - The option to deduct state and local sales taxes rather than state and local income taxes. This provision is particularly important for those taxpayers living in the seven states that don't currently assess an income tax.
  - The deduction of up to $250 in unreimbursed classroom expenses for teachers.
  - The above-the-line deduction for up to $4,000 in qualified tuition and related expenses for couples with modified AGI of $130,000 or less, or $2,000 for couples between $130,000 and $160,000. For singles, the breakpoints are $65,000 and $80,000. Those with modified AGI above the top range are not eligible for the deduction.
  - The deduction for mortgage insurance premiums. This deduction is still subject to a phaseout for those taxpayers with AGI between $100,000 and $109,000.

  - The ability to exclude from income the forgiveness of up to $2 million in debt on a qualified principal residence.
- Business Tax Provisions
  - The credits for expenses related to research & development activities, for providing low-income housing structures and for businesses that employ active duty service members.
  - The Work Opportunity tax credit, which is equal to 40% of a portion of the first-year wages paid to members of targeted groups.
  - The accelerated depreciation deduction, which allows companies to deduct 50% of the cost of a qualified asset in the year it is acquired.
  - The increased first-year deduction under Section 179 for qualified assets placed in service during the year.
  - The exclusion of 100% of the gain on qualified small business stock is extended to include stock acquired in 2014 and held for more than five years. This exclusion is scheduled to revert to 50% for qualified stock acquired after 2014.

The ABLE Act

This bill also authorizes states to create a new form of savings account under the ABLE Program (Achieving a Better Life Experience). These accounts would be similar to 529 plans in that they would be administered by the states, contributions would not be deductible and earnings would be tax-deferred. Withdrawals would be tax-free as long as they don't exceed qualified disability expenses for the year. These expenses include education, housing, transportation, health and wellness, and other personal support expenses.

What to Look for in 2015

Heading into 2015, both parties hope to revisit some form of comprehensive tax reform. House Ways & Means Committee Chairman Dave Camp recently formally released his Tax Reform Bill of 2014, which includes consolidating the individual tax brackets to just 10% and 25% levels, and reducing the top corporate tax rate to 25%. Camp's goal is to have the new House begin debating this when they reconvene in January.

In the Senate, incoming Senate Finance Committee Chair Orrin Hatch recently issued a report titled "Comprehensive Tax Reform for 2015 and Beyond", which highlights issues Congress will need to address in order to reform the current tax code. This analysis includes individual, business and international tax topics.

Lastly, President Obama is expected to lay out his tax strategy as part of his annual budget proposal, which is usually released in the early Spring. Previous budget proposals from President Obama have delved into areas such as Social Security reform, reducing the value of deductions and exclusions for higher-income taxpayers, and expanding the estate tax.

Robert W. Baird & Co. 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202. 1-800-RW-BAIRD. www.rwbaird.com
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