Great outcomes. Done well.

Can the 2014 Tax Increase Protection Act lower your taxes?

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If you were caught up in holiday bustle last December, you may have missed the enactment of the Tax Increase Prevention Act of 2014 (H.R.5771), which renewed for one year more than 50 tax relief provisions that had expired after 2013. This month's Wealth Management Insights reviews how the legislation's extensions could leave taxpayers with extra cash in their wallets come tax day.

For more on the Tax Increase Prevention Act, check out the Wealth Management white paper at rwbaird.com.

What you should know:

1. Several one-time tax breaks for individuals were extended for 2014.

- This legislation allows taxpayers over 70½ to make charitable gifts directly from an IRA – and exclude the withdrawal from taxable income. The gift would also count toward the taxpayer's Required Minimum Distribution for the year.
- Under the new law, taxpayers may choose to deduct state and local sales taxes instead of state and local income taxes – a substantial boon for those whose state of residence does not impose income tax.
- If you or a dependent incurred qualified higher education expenses in 2014, you may be eligible for a deduction of up to $4,000, depending on your adjusted gross income.

2. In addition to individual tax relief extensions, the law renewed several tax provisions for businesses for 2014.

- Companies that acquired a qualified asset in 2014 can deduct 50% of its cost through accelerated depreciation.
- The law also renewed certain business and energy incentives, such as tax credits for the employment of active duty service members and for business-related research expenditures.

- If non-corporate taxpayers realize a profit from selling or exchanging certain qualified small-business stock acquired in 2014, they can exclude the entire gain from their gross income. This exclusion is scheduled to revert to 50% in 2015.

3. The legislation also authorized the creation of a new instrument to help people with disabilities save for their long-term needs.

- The Achieving a Better Life Experience (ABLE) Act, a part of the Tax Increase Prevention Act, allows individuals with disabilities to set up tax-free savings accounts for disability-related expenses, including health care, housing, transportation, education and long term care.
- Similar to 529 savings plans, ABLE accounts would be operated by the states, contributions would not be deductible and earnings would be tax-deferred.
- With certain exceptions, funds in ABLE accounts would not be considered when determining eligibility for means-tested federal programs.

What you should do now:

While taxpayers may rejoice at the extension of these popular tax-relief provisions, it's worth remembering that they apply only through 2014 – and there's no guarantee they will be renewed for 2015. Your tax or Baird Financial Advisor can provide additional guidance into the Tax Increase Prevention Act and how you can structure your wealth with an eye toward tax efficiency. ■