philtax inc Philip Fiegler, Enrolled Agent

Extenders Bill is Passed into Law

The President signed Bill HR 5771, "The Tax Increase Prevention Act of 2014" into law on December 19th. This creates a 1-year retroactive extension of the "extenders" for year 2014. Extenders are things in the Bush tax cuts which were generally supposed to expire in 2010, and have been continually extended for 1-2 years at a time. Some or all may be made into permanent law at a future time, but for now, these are only good for 2014 tax year.

In the words of CCH Inc., one of the primary tax research purveyors, "the new law punts the ultimate fate of the extenders for the 2015 tax year and beyond to the 114th Congress.

There are about 50 in all, encompassing around 500 changes to the Internal Revenue Code. Some of them are esoteric and have nothing to do with any of us. I will list the most prominent for our lives below. CA does not conform to most of these items.

Individuals

- Itemized deduction for state and local sales tax. This is best for people in non-taxed states, but it works for some of you who have low CA liabilities. There is an automated table which can be used for those who do no purchase big ticket items like vehicles or boats. We have automatically optimized between this and your actual state and local tax paid ever since this deduction has existed.
- Above-the-line deduction for up to $250 of educator's classroom (grades K-12) supplies.
- Above-the-line deduction for post-secondary tuition and fees of up to $4,000, depending on AGI. This has also automatically been optimized against the higher education credits available in prior years.
- Mortgage Debt Exclusion on cancelled mortgage debt has been extended through 2014. Note that CA is not conformed to this and there is no telling if they will. I have pointed it out specifically here as the tax differential could be large. If you are a client and have had a foreclosure, short sale, or loan modification, it is critical for you to contact this office with the details immediately.
- Mortgage Insurance premiums remain deductible, subject to certain qualifications and AGI phaseouts.
- Charitable distributions of Required Minimum Distribution (RMD) from IRAs. This must be done directly through your IRA custodian. If you are taking RMDs , are in a high tax bracket, and normally do a lot of giving, this could work well for you. The IRA RMD income is not taxable to you and you receive a deduction for the gift.
- Non-business energy credit continues for 2014. N This includes improvements such as adding insulation, energy efficient heating/air conditioning, or energy efficient windows.

The Following were NOT Extended

- Energy efficient appliance credit
- Plug-in electric vehicle credit

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Businesses

Please note that the info in the year-end tips email newsletter titled "eoy tax tips 2014" already took the correct figures into account when discussing the various business depreciation items.

If you have not yet seen the chart in eoy tips, the standard mileage rate for 2015 will be 57.5¢/mile.

- Section 179 first-year expensing limit remains at $500,000. Before the act passed, it was scheduled to be limited to at $25,000.
- Certain qualified Leasehold/Retail Improvements may also qualify for the Sec. 179 deduction.
- 50% Bonus depreciations continues. See year-end tips newsletter for further detail.
- Potential large deductions for purchase of a new (not used) vehicle in 2014.
- 110-percent exclusion for gain on qualified small-business stock held over 5 years for non-corporate taxpayers.

Items of Interest which are not Extenders

- Congress has created something called an ABLE Account. This works similar to a Section 529 education plan. A tax-favored account can be created for a disabled individual starting in 2015. Qualified distributions can cover medical, transportation, education, and housing. Disabled individuals must have become disabled or blind before age 26. Each disabled individual is limited to one ABLE account, and total contributions by all donating individuals to the disabled person's ABLE account cannot exceed the annual Gift Tax exclusion, which is $14,000 for 2015.
- In a 529 plan, either the account contributor or designated beneficiary may now change investment direction twice a year.
- Finally, IRS' budget has been slashed significantly, down to 2008 levels. Normally we would jump for joy about this. I believe it is not good news for a number of reasons. They may as well just change their name to "Internal Revenue," because "Service" will no longer be able to be a part of anything they do. They are responsible for administering around 60 or 65% of Obamacare, and have no employees to deal with it. Many people feel that enforcement will be cut down as the enforcement budget in particular was slashed. I believe it will just increase "automated" enforcement, which is much harder to deal with, as I cannot communicate with an actual person repeatedly on a case.