Chapter 1
Tax Increase Prevention Act of 2014 (TIPA)

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Chapter 1
Tax Increase Prevention Act of 2014 (TIPA)

Key Issue 1A: Tax Increase Prevention Act of 2014

The Tax Increase Prevention Act of 2014 (the Act) retroactively extends most the federal income tax breaks that would have affected many individuals and businesses. Unfortunately, the extension was only through 2014. Therefore, these provisions will expire on December 31, 2014. This chapter summarizes the most important provisions for individuals and businesses as follows:

- Key Issue 1B explains the individual income tax provisions that were extended by the Act.
- Key Issue 1C explains the depreciation and expensing provisions in the Act
- Key Issue 1D explains tax credits for businesses that were extended by the Act
- Key Issue 1E explains key business tax breaks extended by the Act.

The Act also included some nonextender provisions (see Key Issue 1G), as well as another bill, the "Achieving a Better Life Experience Act (ABLE) of 2014." ABLE establishes a new type of tax-advantaged account for disabled individuals, allowing them to save money for future needs while remaining eligible for government benefit programs. ABLE accounts are discussed in Key Issue 1F.

Key Issue 1B: Extended Tax Breaks for Individuals

The Tax Increase Prevention Act of 2014 (the Act) retroactively extends most of the federal income tax breaks that would have affected many individuals and businesses through 2014. This key issue summarizes the most important provisions for individuals.

$250 Deduction for K-12 Educators

For the last few years, teachers and other eligible personnel at K-12 schools could claim an above-the-line deduction of up to $250 of school-related expenses paid out of their own pockets—whether they itemized or not. This break expired at the end of 2013.

The Act retroactively restores this deduction so that it applies to expenses paid or incurred in tax years through 2014. [See Code Sec. 62(a)(2)(D), as amended by Act Sec. 101(a).]

Tax-free Treatment for Forgiven Principal Residence Mortgage Debt

For federal income tax purposes, a forgiven debt generally counts as taxable Cancellation of Debt (COD) income. However, a temporary exception applied to COD income from cancelled mortgage debt that was used to acquire a principal residence. Under the temporary rule, up to $2 million of COD income from principal residence acquisition debt that was cancelled in 2007–2013 was treated as a tax-free item.

The Act retroactively extends this break to cover eligible debt cancellations that occur before 2015. [See Code Sec. 108(a)(1)(E), as amended by Act Sec. 102(a).]

Mortgage Insurance Premium Deduction

Premiums for qualified mortgage insurance on debt to acquire, construct or improve a first or second residence can potentially be treated as deductible qualified residence interest. The deduction is phased out ratably by 10% for each $1,000 by which the taxpayer's AGI exceeds $100,000 ($50,000 for married filing separately). Before the Act, this break was only available for premiums paid or accrued before 2014.

The Act retroactively restores the break for premiums paid or accrued before 2015. [See Code Sec. 163(h)(3)(E), as amended by Act Sec. 104(a).]

Option to Deduct State and Local Sales Taxes

For the last few years, individuals who paid little or no state income taxes had the option of claiming an alternative itemized deduction for state and local sales taxes. The sales tax deduction option expired at the end of 2013.

The Act retroactively restores this provision for one year so that itemizers can elect to deduct state and local sales taxes instead of state and local income taxes for tax years beginning before 2015. [See Code Sec. 164(b)(5)(I), as amended by Act Sec. 105(a).]

Qualified Conservation Contribution Breaks

Qualified conservation contributions are charitable donations of real property interests, including remainder interests and easements that restrict the use of real property. Liberalized deduction rules applied through 2013 that increased the maximum write-off for qualified conservation contributions of long-term capital gain property from the normal 30%- to 50%-of-AGI and the carryover period for such contributions in excess of the applicable limitation from the normal five-year carryover period to a 15-year carryover period. In addition, qualified conservation contributions were not counted when calculating an individual's allowable write-offs for other charitable contributions.

For an individual who was a qualified farmer or rancher, the qualified conservation contribution write-off for donated farm or ranch real property could be as much as 100% of the donor's AGI. However, the donation must include a usage restriction stating that the property must remain available for agricultural or livestock production.

The Act retroactively restores these liberalized rules for contributions made in tax years beginning in 2014. [See Code Sec. 170(b)(1)(E), as amended by Act Sec. 106(a) and (b).]

Qualified Tuition Deduction

Through 2013, eligible individuals could claim an above-the-line (for AGI) deduction for qualified tuition and related expenses for the taxpayer, spouse, or their dependents. The maximum deduction was $4,000 for an individual whose AGI didn't exceed $65,000 ($130,000 in the case of a joint return). The maximum deduction was $2,000 for an individual whose AGI was between $65,001 and $80,000 ($130,001 and $160,000 in the case of a joint return). No deduction is allowed for an individual whose AGI exceeds the $80,000 ($160,000 in the case of a joint return), a married individual who does not file a joint return, or an individual for whom a personal exemption deduction may be claimed by another taxpayer. Under pre-Act law, this deduction wasn't available for tax years beginning after December 31, 2013.

The Act retroactively restores the qualified tuition deduction for one year so that it can be claimed for tax years beginning before 2015. [See Code Sec. 222(e), as amended by Act Sec. 107(a).]

IRA Qualified Charitable Contributions

For 2006–2013, IRA owners who had reached age 70½ were allowed to make tax-free charitable contributions of up to $100,000 directly out of their IRAs. Such contributions were called Qualified Charitable Distributions (QCDs), and they counted as IRA Required Minimum Distributions (RMDs). Charitably inclined seniors with more IRA money than they needed could reduce their income tax bills by arranging for tax-free QCDs to take the place of taxable RMDs. This break expired at the end of 2013.

The Act retroactively restores this provision for one year so that it's available for QCDs made in tax years beginning before 2015. [See Code Sec. 408(d)(8)(F), as amended by Act Sec. 108(a).]

$500 Energy-efficient Home Improvement Credit

In past years, taxpayers could claim the Section 25C credit of up to $500 for certain energy-saving improvements to a principal residence. The credit generally equaled 10% of eligible costs for energy-efficient insulation, windows, doors and roof, plus 100% of eligible costs for energy-efficient heating and cooling equipment, subject to the $500 lifetime cap (with no more than $200 from windows and skylights).This break expired at the end of 2013.

The Act retroactively extended the credit nonbusiness energy property credit for one year, to apply to property placed in service during 2014. [See Code Sec. 25C(g)(2), as amended by Act Sec. 151).]

Note: The cap is reduced by any Section 25C credits claimed in earlier years. Therefore, many taxpayers who previously claimed credits will be out of the game.

100% Gain Exclusion for Qualified Small Business Corporation (QSBC) Stock

A taxpayer may exclude all of the gain on the disposition of QSBC stock acquired after September 27, 2010 and before 2014. None of the excluded gain is subject to the alternative minimum tax. Under pre-Act law, the exclusion was to be limited to 50% of gain for stock acquired after 2013, and seven percent of the excluded gain was to be an alternative minimum tax preference.

The Act retroactively restores the temporary 100% gain exclusion (within limits) and the exception from alternative minimum tax preference treatment for sales of QSBC stock acquired in 2014. [See Code Sec. 1202(a)(4), as amended by Act Sec. 136(a).] See Key Issue 6A for further discussion of the gain exclusion for QSBC stock.

Key Issue 1C: Cost Recovery Provisions

The Tax Increase Prevention Act of 2014 (the Act) retroactively extends most the federal income tax breaks that would have affected many individuals and businesses through 2014. This key issue summarizes the cost recovery provisions.

50% Bonus Depreciation Extended

Under per-Act law, 50% bonus (or first-year) depreciation wasn't allowed for qualified property placed in service after December 31, 2013 (December 31, 2014 for certain assets with longer production periods).

The Act retroactively extends 50% first-year bonus depreciation for qualifying new (not used) assets that are placed in service before December 31, 2014. However, the placed-in-service deadline is extended to December 31, 2015 for certain assets that have longer production periods, including transportation equipment and aircraft. [See Code Sec. 168(k), as amended by Act Sec. 125(a).]

To be eligible for 50% first-year bonus depreciation, an asset must be qualified property (which can include most purchased software costs and certain leasehold improvement costs). The original use of the asset generally must commence (i.e., the property must be placed in service) with the taxpayer by no later than December 31, 2014 (December 31, 2015 for certain assets with longer production periods). Under the extended deadline privilege, however, only the portion of a qualifying asset's basis that is allocable to costs incurred before 2015 is eligible for 50% bonus depreciation.

For new passenger autos and light trucks subject to the luxury auto depreciation limitations, the 50% bonus depreciation increases the maximum first-year depreciation deduction by $8,000 [Code Sec. 168(k)(2)(F)]. Thus, the maximum first-year depreciation deduction for 2014 is $11,160 ($8,000 + $3,160) for new autos and $11,460 ($8,000 + $3,460) for new light trucks and vans. (See Key Issue 9A for a discussion of the luxury auto depreciation limits.)

The 50% first-year bonus depreciation rules apply for both regular tax and AMT purposes. In addition, there is no AMT adjustment with respect to regular MACRS depreciation deductions for the remaining 50% of the cost of property subject to bonus depreciation. In other words, for assets subject to bonus depreciation, the rules are the same for both regular tax and AMT purposes.

Generous Section 179 Rules Extended

Under per-Act law, for tax years beginning after 2013, the maximum Section 179 deduction was scheduled to be only $25,000, the phase-out threshold was scheduled to fall to $200,000 and there was to be no Section 179 deduction privilege for real estate.

The Act retroactively restores: (1) the maximum Section 179 deduction to $500,000 (same as for tax years beginning in 2013) for qualifying assets placed in service in tax years beginning in 2014, (2) the Section 179 deduction phase-out threshold to $2 million for tax years beginning in 2014 (same as for tax years beginning in 2013) and (3) the temporary rule allowing up to $250,000 of Section 179 deductions for qualifying real property placed in service in tax years beginning in 2014 [Code Sec. 179(b) and (f), as amended by Act Sec. 127]. Note that the $250,000 Section 179 deduction allowance for qualifying real property is part of (rather than in addition to) the general $500,000 maximum allowance.

In general, the other pre-existing Section 179 rules are also extended through tax years beginning in 2014. For instance, most purchased software costs will continue to be eligible for the Section 179 deduction through tax years beginning in 2014, and Section 179 elections can still be revoked through tax years beginning in 2014. (See Key Issue 9F for additional discussion of the Section 179 deduction.)

Note: For tax years beginning in 2015, the maximum Section 179 deduction is scheduled to be only $25,000, the phase-out threshold is scheduled to fall to $200,000, and the Section 179 deduction privilege for real estate is scheduled to die again. However, we doubt this is the last word on the Section 179 deduction rules for tax years beginning in 2015 and beyond. The rules will probably be liberalized before all is said and done.

15-year Depreciation for Leasehold Improvements, Restaurant Property, and Retail Space Improvements Extended

Under per-Act law, qualified leasehold improvements, qualified restaurant property and qualified retail space improvements placed in service after December 31, 2013 would generally have to be depreciated straight-line over 39 years. Such property placed in service before 2014 could generally be depreciated straight-line over 15 years.

The Act retroactively restores the 15-year straight-line depreciation privilege for qualified leasehold improvements, qualified restaurant property and qualified retail space improvements is placed in service in 2014. [See Code Sec. 168(e)(3)(E), as amended by Act Sec. 122.]

Restaurant property and retail space improvements that are eligible for 15-year depreciation are generally ineligible for first-year bonus depreciation [Code Sec. 168(e)(7)(B) and (e)(8)(D)]. However, they are eligible for bonus depreciation if they also meet the definition of qualified leasehold improvement property. (CCA 201203014)

Key Issue 1D: Extended Tax Credits For Businesses

The Tax Increase Prevention Act of 2014 (the Act) retroactively extends most the federal income tax breaks that would have affected many individuals and businesses through 2014. This key issue summarizes the more important business tax credits that were extended by the Act.

Research Credit

Before 2014, a research credit was allowed for qualifying research expenses. Under pre-Act law, the research credit didn't apply for amounts paid or accrued after 2013.

The Act retroactively restores the research credit to cover qualifying expenses paid or accrued before 2015. [See Code Sec. 41(h)(1), as amended by Act Sec. 111(a)].

Work Opportunity Credit Hiring Deadline

The work opportunity tax credit (WOTC) allows employers who hire members of certain targeted groups to get a credit against income tax of a percentage of first-year wages and, under certain circumstances, second year wages. Under pre-Act law, wages for purposes of the WOTC didn't include any amount paid to qualifying employees who began work after 2013.

The Act retroactively extends the general deadline for employing eligible individuals for purposes of claiming the WOTC to cover qualifying hires who begin to work in 2014. [See Code Sec. 51(c)(4), as amended by Act Sec. 119(a).]

Differential Pay Credit for Small Employers

Previous legislation created a tax credit for eligible small employers that provide differential pay to employees while they serve in the military. The credit equals 20% of differential pay of up to $20,000 paid to each qualifying employee during the tax year. Under pre-Act law, the credit was not available for differential wages paid after 2013.

The Act retroactively restores the differential pay credit to cover differential wages paid in 2014. [See Code Sec. 45P, as amended by Act Sec. 118(a).]