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Protecting Americans from Tax Hikes Act of 2015

Last week Congress passed, and on Friday President Obama signed, the "Protecting Americans from Tax Hikes Act of 2015." I'm glad that the Congress was so modest in naming this bill. To their credit, Congress did actually make permanent several provisions that we have consistently had to wait until the last few weeks of the year to know if they were still law. Other provisions were extended for two years (2015, and 2016, which seems like a one-year extension to those of us whose calendar will read 2016 in less than two weeks.)

Following is a summary, courtesy of CCH, of the provisions of this tax bill affecting individual taxpayers.

Please let me know if you have any questions about any of these provisions.

Happy Holidays!

Eric
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EXTENDERS FOR INDIVIDUALS
The Act extends permanently many popular but heretofore temporary tax incentives for individuals. It also modifies some of them, as well as extending the rest, for either five or two years, retroactive to the start of 2015.

IMPACT.
Taxpayers, both individuals and businesses, had criticized some of the prior extenders as too short-lived to rely on them for any sort of meaningful strategic planning. The new law is anticipated to help both those taxpayers and the economy in general.

Permanent Extensions for Individuals

The Act makes several key individual extenders permanent.

State and Local Sales Tax Deduction

The election to claim an itemized deduction for state and local general sales taxes, in lieu of deducting state and local income taxes, expired after December 31, 2014. The Act makes the election permanent.

IMPACT.

In addition to this provision being particularly valuable to taxpayers in states without an income tax, some taxpayers who make a big ticket purchase, such as a motor vehicle, before year-end could benefit by weighing the deduction for state and local general sales taxes against their deduction for state and local income taxes.

American Opportunity Tax Credit

The Act makes permanent the American Opportunity Tax Credit (AOTC), an enhanced version of the Hope education credit. The AOTC has been available at an increased level of $2,500, with adjusted gross income (AGI) phase-out amounts of $80,000 (single) and $160,000 (married filing jointly). The AOTC had been scheduled to expire after 2017.

Child Tax Credit

The Act makes permanent the reduced earned income threshold amount of an un-indexed $3,000. This provision had been scheduled to expire after 2017.

IMPACT.

Under the Act, the child tax credit, available up to $1,000 for qualifying dependents under age 17, may be refundable to the extent of 15 percent of the tax-payer's earned income in excess of $3,000.

Earned Income Credit

The Act makes permanent the increase ($5,000) in phaseout amount for joint filers, scheduled to expire after 2017. The Act also makes permanent the increased 45 percent credit percentage for taxpayers with three or more qualifying children. Under prior law, both enhancements had been available only through 2017.

Teachers' Classroom Expense Deduction

The Act permanently extends the above-the-line deduction for elementary and secondary school teachers' classroom expenses. It also modifies the deduction by indexing the $250 ceiling amount to inflation beginning in 2016. Additionally, the Act includes "professional development expenses" within the scope of the deduction.

IMPACT.

Professional development expenses under the Act include courses related to the curriculum in which the educator provides instruction. The modification for professional development courses applies to tax years beginning after December 31, 2015.

Transit Benefits Parity

The Act permanently extends parity among transit benefits. These include van pool benefits, transit passes and qualified parking.

IMPACT.

For tax years beginning in 2016, the inflation-adjusted monthly exclusion amount for transit passes and van pool benefits will be $255 (up from $250 in 2015), in line with the inflation-adjusted amount for qualified parking.

COMMENT

For retroactive application of parity to 2015 during which employers had been allowing only $130/month before passage of the Act, the IRS is expected to release rules similar to Notice 2015-2, which addressed retroactive application during 2014 regarding fourth quarter Form 941, Form W-2 and other adjustments in connection with the last extenders bill.

COMMENT

The exclusion for a qualified bicycle reimbursement is unchanged by the Act and is limited to $20 times the number of months during which the employee uses the bicycle for commuting purposes.

Charitable Distributions from IRAs

The Act permanently extends the provision for individuals age 70 1/2 and older to be allowed to make tax-free distributions from individual retirement accounts (IRAs) to a qualified charitable organization. The treatment continues to be capped at a maximum of $100,000 per taxpayer each year.

IMPACT.

Amounts in excess of $100,000 must be included in income but may be taken as an itemized charitable deduction, subject to the usual AGI annual caps for contributions.

COMMENT

The Act also includes a provision on the deductibility of charitable contributions to agricultural research organizations.

Qualified Conservation Contributions

A special rule allows contributions of capital gain real property for conservation purposes, with the contribution to be taken against 50 percent of the contribution base. Under the Act, this special rule is permanently extended. It is also modified for Alaska Native Corporations.

Two-Year Extensions for Individuals

The Act renews several extenders related to individuals, for two years through 2016.

IMPACT.

Because of their retroactive application to the start of 2015, two-year provisions will be up for renewal again at the end of 2016.

Qualified Tuition/Related-Expenses Deduction

The Act extends through 2016 the above-the-line deduction for qualified tuition and fees for post-secondary education.

Mortgage Debt Exclusion

The Act excludes from income cancellation of mortgage debt on a principal residence of up to $2 million ($1 million for a married taxpayer filing a separate return) through 2016. The Act also modifies the exclusion to apply to qualified principal residence indebtedness discharged in 2017 if discharge is made under a binding written agreement entered into in 2016.

IMPACT.
Without an extension, debt that is forgiven through a foreclosure, short sale or loan modification could be treated as taxable income if another exclusion, such as for insolvency, is not available.

Mortgage Insurance Premium Deduction

This measure treats mortgage insurance premiums as deductible interest that is qualified residence interest subject to AGI phaseout. The Act extends this special treatment through 2016.