Anchin Alert

Anchin, Block & Anchin LLP
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December 29, 2015

Individuals Can Save More Tax in 2015 and Beyond, Thanks to New "Extenders" Law

With year end right around the corner, Congress passed the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act). The act extended numerous tax breaks that had expired December 31, 2014, and the President signed it into law December 18.

The new law is more significant than some tax "extenders" legislation in recent years because, in addition to extending relief, the PATH Act makes quite a few tax breaks permanent and also enhances some breaks. Let's take a look at some of the breaks that may help you save tax on your individual return in 2015 and beyond.

Charitable Giving

The PATH Act makes permanent the provision that allows taxpayers who are age 70½ or older to make direct contributions from their IRA to qualified charitable organizations up to $100,000 per tax year. The taxpayers can't claim a charitable or other deduction on the contributions, but the amounts aren't deemed taxable income and can be used to satisfy an IRA owner's required minimum distribution.

To take advantage of the exclusion from income for IRA contributions to charities on your 2015 tax return, you'll need to arrange a direct transfer by the IRA trustee to an eligible charity by December 31, 2015. Donor-advised funds and supporting organizations are not eligible recipients.

The law makes other tax benefits related to charitable giving permanent, too, including the enhanced deduction for contributions of real property for conservation purposes.

Tax Credit for Nonbusiness Energy Property

The PATH Act extends through 2016 the credit for purchases of residential energy property. Examples include new high-efficiency heating and air conditioning systems, insulation, energy-efficient exterior windows and doors, high-efficiency water heaters and stoves that burn biomass fuel.

The provision allows a credit of 10% of expenditures for qualified energy improvements, up to a lifetime limit of $500. If you've been thinking about investing in some energy upgrades, you'll want to do it before the end of next year.

Education Breaks

The American Opportunity credit (a modified version of the Hope credit) allows eligible taxpayers to take an annual credit of up to $2,500 (vs. the Hope credit maximum of $1,800) for various tuition and related expenses for each of the first four years of postsecondary education (vs. the first two years with the Hope credit). The credit phases out based on modified adjusted gross income (MAGI) beginning at $80,000 for single filers and $160,000 for joint filers, indexed for inflation.

The American Opportunity credit was scheduled to revert to the Hope credit after 2017, with the $1,800 and first-two-years limits and lower MAGI phaseout thresholds. The PATH Act makes the more beneficial American Opportunity credit permanent.

The PATH Act extends through 2016 the above-the-line deduction for qualified tuition and related expenses for higher education. The deduction is capped at $4,000 for taxpayers whose adjusted gross income (AGI) doesn't exceed $65,000 ($130,000 for joint filers) or, for those beyond those amounts, $2,000 for taxpayers whose AGI doesn't exceed $80,000 ($160,000 for joint filers).

You can't take the American Opportunity credit, its cousin the Lifetime Learning credit and the tuition deduction in the same year for the same student. If you're eligible for all, the American Opportunity credit will typically be the most valuable in terms of tax savings. But in some situations, the AGI reduction from the deduction might prove more beneficial than taking the Lifetime Learning credit because the deduction ends up saving more tax than opting for the credit.

Transit Benefits
If you commute to work via a van pool or public transportation, you'll be happy to hear that the law makes permanent the requirement that limits on the amounts that can be excluded from an employee's wages for income and payroll tax purposes be the same for both parking benefits and van pooling / mass transit benefits.

For 2015, the monthly limit is $250. Before the PATH Act, the 2015 monthly limit was only $130 for van pooling / mass transit benefits. (The $250 limit increases to $255 for 2016.)

Small Business Stock Gains Exclusion
The PATH Act makes permanent the exclusion of 100% of the gain on the sale or exchange of qualified small business (QSB) stock acquired and held for more than five years. The 100% exclusion is available for QSB stock acquired after September 27, 2010. (Smaller exclusions are available for QSB stock acquired earlier.)

A QSB is generally a domestic C corporation that has gross assets of no more than $50 million at any time (including when the stock is issued) and uses at least 80% of its assets in an active trade or business. The law also permanently extends the rule that eliminates QSB stock gain as a preference item for alternative minimum tax (AMT) purposes.

Mortgage-Related Tax Breaks
Under the act, you can treat qualified mortgage insurance premiums as interest for purposes of the mortgage interest deduction through 2016. The deduction phases out for taxpayers with AGI of $100,000 to $110,000, however.

The PATH Act likewise extends through 2016 the exclusion from gross income for mortgage loan forgiveness. It also modifies the exclusion to apply to mortgage forgiveness that occurs in 2017 as long as it's granted pursuant to a written agreement entered into in 2016.

State And Local Sales Tax Deduction
The itemized deduction for state and local sales taxes, instead of state and local income taxes, is now permanent. The deduction is especially valuable for individuals who live in states without income taxes. It can also benefit taxpayers in other states who purchase major items, such as a car or boat.

You don't have to keep receipts and track all the sales tax you actually pay. Your deduction can be determined by using an IRS sales tax calculator that will base the deduction on your income and the sales tax rates in your locale plus the tax you actually pay on certain major purchases.

We are reviewing how the PATH Act will help our clients. In the meantime, if you have any questions, please contact your Anchin relationship partner or Clarence G. Kehoe, Partner-in-Charge of Anchin's Tax Department at 212.840.3456.

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